



SOLIMAR ENERGY LIMITED

ABN 42 112 256 649

(FORMERLY LIVINGSTONE PETROLEUM LIMITED)

**Financial Report
For the Year Ended
30 June 2007**

TABLE OF CONTENTS

DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION	15
DIRECTORS' DECLARATION	16
INDEPENDENT AUDIT REPORT	17
INCOME STATEMENT	19
STATEMENT OF CHANGES IN EQUITY	20
BALANCE SHEET	21
STATEMENT OF CASH FLOWS	22
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	23
CORPORATE GOVERNANCE STATEMENT	49
ADDITIONAL SHAREHOLDER INFORMATION	56

The Directors of the Company present their report together with the financial report of Solimar Energy Limited (the Company) and of the Group being the Company and its subsidiaries and the auditors report thereon for the financial year ended 30 June 2007.

1. DIRECTORS AND COMPANY SECRETARY

The Directors and the Company Secretary of the Company at any time during or since the end of the financial period are as follows. All were in office for the entire period.

Mr Frank Petruzzelli BBus(Acc), FNTA, PNA

Non-Executive Chairman (Age 44; Appointed 29/06/07)

Frank joined the Board of Solimar Energy on 29 June 2007 in the role of Non-Executive Chairman. Frank is a principle of MDB, an Australian accounting firm. He is an accounting and management services specialist and advises many ASX listed companies and large private organisations. Frank is a Fellow of the National Tax and Accountants Association and a Member of the NIA and a registered Tax Agent. Frank was also a founding director of Orchard Petroleum Limited, a company whose primary involvement was oil & gas exploration in California, USA. He is also a director of Golden Gate Resources Limited, which also specialises in oil and gas exploration, concentrating on oil and gas lease tenements in Padre Island, Texas, USA. Frank was previously Non-Executive Chairman of Golden Gate Resources Limited.

Mr Mark Elliott

Non-Executive Director (Age 48; Appointed 29/06/07)

Mark has over 27 years experience in owning and running private companies in Australia and in the USA. He has extensive experience in the resources sector through investments in companies involved in that sector. He is a director of several private companies which predominantly relate to his private family business that cover building and construction, stone restoration, manufacturing of stone products and property developments. Mark has not held any other directorships in listed companies.

Mr Michael Fry B.Com, FFin

Non-Executive Director (Age 50; Appointed 17/12/04; Resigned 25/09/2007)

Michael has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.

Michael holds a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Financial Services Institute of Australasia and is a past member of the Australian Stock Exchange.

Michael is currently the Non Executive Chairman of Red Fork Energy Limited and a Director of Liberty Resources NL. He was previously a director of Precious Metals Australia Limited (appointed 3 March 2004, resigned 21 June 2007) and Preston Resources Limited (appointed 3 March 2004, resigned 18 May 2005).

Mr Craig Burton BJuris, LLB, MAICD

Executive Director (Age 44; Appointed 17/12/04)

Craig is an experienced and active investor in start-up projects and businesses, both public listed and private. Over the last 15 years he has co-founded numerous development companies, with a focus upon the resources, oil and gas, mining services and agribusiness sectors. He often takes on a commercial executive role to assist the early development of such companies.

Craig is currently an executive director of Mirabela Nickel Ltd and a non-executive director of Wildhorse Energy Limited, Matra Petroleum plc, Exco Resources NL, Rewards Group Limited and Capital Drilling Limited. He was a co-founder of Albidon Limited, Sally Malay Mining Limited and Energy Ventures Limited. He has a Bachelor of Laws degree from the University of Western Australia and is a member of the Australian Institute of Company Directors.

Mr Chris Bowyer BCA BA CA (NZ)

Company Secretary (Age 38; Appointed 29/06/07)

Chris is a chartered accountant with 15 years experience in public practice as well as the private sector. Chris was the Company Secretary of Orchard Petroleum Limited which was listed on the ASX before its takeover by Eskdale Petroleum Pty Ltd in March 2007. He is an employee of MDB, an Australian accounting firm.

Mr Jim Malone B.Com ASA

Non Executive Chairman (Age 42; Appointed 17/12/04; Resigned 29/06/07)

Jim has worked as an accountant, stockbroker, business analyst and chief executive officer of medium sized businesses for the past 20 years, the last 8 years in the natural resources sector. Jim has a Bachelor of Commerce degree from the University of Western Australia and is an Associate of the Australian Society of Certified Practising Accountants.

Jim's expertise is in the area of business development, investor relations, capital raisings, ASX liaison and financial and administrative management.

Jim is currently Managing Director of Latin Gold Limited and a director of Uranium King Limited, Nuenco NL and Catalyst Metals Limited. He has held no other directorships over the past three years.

Mr Brett Mitchell B.Ec MAICD

Company Secretary (Age 35; Appointed 17/12/04; Resigned 29/06/07)

Brett has worked for both private and publicly listed entities for the past 15 years as a corporate finance executive. Brett holds a Bachelor of Economics degree from the University of Western Australia and has specific experience in the financial markets and resources sectors.

Brett is currently an executive director and company secretary of Transerv Australia Ltd (appointed 24 July 2006) and Energy Ventures Ltd. He also holds the positions of company secretary of African Energy Resources Ltd and a non-executive director and company secretary of Nuenco NL.

1.1 Directors' Meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial period were:

Director	Board of Directors	
	Present	Held
Jim Malone*	7	7
Craig Burton	7	7
Michael Fry**	6	7
Frank Petruzzelli*	1	1
Mark Elliott*	1	1

* Frank Petruzzelli and Mark Elliott were appointed as Directors following the General Meeting which was held on 29 June 2007. Jim Malone also resigned as a director of Livingstone on this date.

** Michael Fry resigned on 25 September 2007.

1.2 Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Solimar Energy Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Stock Exchange Corporate Governance Council, and considers that the Company is in compliance with those guidelines which are of importance to the commercial operation of a junior listed resource Company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. A Corporate Governance Statement is included as part of this report.

2. REVIEW OF OPERATIONS

2.1 Corporate Development Activities

2.1.1 Acquisition of Solimar Energy

On 10 May 2007, Livingstone Petroleum Limited ("Livingstone") announced that it had entered into an agreement to acquire Solimar Energy Pty Ltd and its wholly owned U.S. subsidiary, Solimar Energy, LLC ("Solimar Energy"), a private oil & gas company with interests in several oil and gas prospects in the State of California. This agreement was subsequently approved by shareholders at a General Meeting which was held on 29 June 2007.

Solimar Energy had assembled a portfolio of petroleum assets which offers a variety of exploration targets from low risk exploration plays to high impact exploration opportunities.

This acquisition also injected approximately A\$4.8 million cash into Livingstone at year end.

The Solimar Energy acquisition is consistent with Livingstone's strategy of focussing on onshore California which the company believes is highly prospective and compliments Livingstone Petroleum's existing onshore Californian petroleum assets.

The acquisition will positively impact the risk-reward equation for its shareholders by introducing more projects with more potential upside than its current portfolio. Not only will Livingstone benefit from increased exploration exposure, but it will also have greater project diversity. Solimar Energy's prospects in the San Joaquin Basin, in southern California involve four (4) prospects:

- (i) Ventura South Flank (16.5%, paying 22.0%);
- (ii) Aquaduct Fan (10%);
- (iii) Maricopa (100%); and
- (iv) Deer Creek (100%).

2.1.2 Property Exchange Agreement with Orchard Petroleum Limited

On 18 May 2007, Livingstone announced that it had reached an agreement with Orchard Petroleum, Inc. ("Orchard") to separate their respective interests in the Forbes joint venture. Under this agreement:

- Livingstone will acquire 100% of Orchard's Buckeye and the Arbuckle leases (Livingstone formerly held 50% of these areas under the Forbes Joint Venture).
- Orchard will acquire 100% of the balance of the Forbes project areas, including the Larner 1-12 well, the Larner 2-12 well and the Edge 1-10 well.
- The South Buckeye well will continue to be held 50/50 between Orchard and Livingstone, and Orchard will arrange flow testing as soon as practicable to determine if the gas intervals seen on electric logs are commercial.

- Orchard will transfer to Livingstone its 50% interest in the Block B lease at Southeast Lost Hills (San Joaquin basin), including the Southeast Lost Hills (SELH) wells 1-13, 2-13, 3-13 and 1-12 and the uncompleted pipeline relating thereto. Livingstone will become operator of this project, with the other 50% held by Nuenco NL.
- Livingstone will pay Orchard US\$163,500 (principally reimbursement of pre-paid lease rentals on the Buckeye project) and US\$100,000 for Livingstone's 50% share of the South Buckeye well completion costs and Orchard released Livingstone from paying approximately US\$600,000 in respect to past drilling expenses.

This Agreement enables Livingstone and Orchard to separately pursue the project areas of most interest to each of them. It increases Livingstone's interest in key projects of interest, namely Buckeye and Arbuckle plus added Southeast Lost Hills as a new project. Livingstone is also in a better position to farm-out these projects, if desired.

2.1.3 Change of company name

The resolution to change the Livingstone company name to "Solimar Energy Limited" was approved at the General Meeting which was held on 29 June 2007. The ASX Code for Solimar Energy is SGY.

2.1.4 Election of new directors

Mr Frank Petruzzelli and Mr Mark Elliott were elected as new directors of Solimar Energy Limited at the General Meeting which was held on 29 June 2007. Mr Petruzzelli became the new Non-Executive Chairman following the resignation of the previous Chairman, Mr Jim Malone. Michael Fry resigned on 25 September 2007.

2.2 Operational Activities

2.2.1 Forbes Gas Project, Sacramento Basin

Prior to the Property Exchange Agreement with Orchard discussed in Section 2.1.2, Livingstone held a 50% interest in the Forbes Gas Project involving the exploration for natural gas in the prolific Sacramento Basin of California. This interest was held through its wholly-owned subsidiary Livingstone Energy Inc. Areas located near the Forbes Gas Project have produced gas from the Forbes Formation since 1934 with cumulative production to date of more than 600 billion cubic feet of gas.

During the 2006/07 financial year, the Forbes Joint Venture with Orchard drilled the South Buckeye 1-18 and Heavenly 2-28 wells. The drilling of these 2 wells targeted the gas bearing stratigraphic traps in the Forbes formation, analogous to the gas discoveries made at the Larner 1-12 and 2-12 wells.

South Buckeye 1-18 Well

The South Buckeye 1-18 well was spudded on 24 October 2006 and encountered gas in one of the objectives between 9,315 feet and 9,345 feet. Based on the electric logging of the well, there appeared to be approximately 10 to 15 feet of net pay in this Forbes formation interval. The amount of net pay encountered in this well was consistent with Forbes formation gas producing wells located in the area. The decision was made to set pipe and complete the South Buckeye 1-18 well. The operator, Orchard, is arranging flow testing of this well, subject to the availability of a service rig.

Heavenly 2-28 Well

The Heavenly 2-28 well was spudded on 27 November 2006 and drilled to a total depth of 9,920 feet. Electric logging of the well suggested only small amounts of gas present in the targeted Forbes sandstone objectives of this well. Following analysis of the electric logs a decision was made for the well to be plugged and abandoned.

2.2.2 Ventura South Flank Prospect, Ventura Basin

Ventura South Flank Well

The Ventura South Flank well commenced drilling in early May 2007 and reached a depth of 11,000 feet. Electric logs were run and it was determined that the well had not intersected the primary fault trap. A decision was made to sidetrack the well.

The Ventura South Flank sidetrack well reached a target depth of 9,910 feet and electric logs were run. No commercial hydrocarbons were discovered in the sidetrack well. As a consequence, the Ventura South Flank Joint Venture decided to suspend the well and allow for a full technical review before proceeding with additional drilling at this location. The Joint Venture is still keen to explore the Ventura South Flank Project area but it is clear from recent drilling that the structural configuration of the prognosed oil and gas accumulation is more complex and will require additional technical work before any more drilling takes place.

3. REMUNERATION REPORT

3.1 Remuneration Policy

This Remuneration Report outlines the remuneration arrangements which were in place during the period, and remain in place as at the date of this report, for the Directors of Solimar Energy Limited.

3.2 Principles of Compensation – Audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel include the most highly remunerated S300A directors and executives for the Company and the consolidated entity.

Compensation levels for key management personnel and secretaries of the Company, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Company obtains independent advice on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel;
- The key management personnel's ability to control the relevant segment/s' performance;
- The consolidated entity's performance including:
 - The consolidated entity's earnings
 - The growth in share price and delivering constant returns on shareholder wealth; and
- The amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation and short- and long-term performance-based incentives.

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel.

3.2.1 Fixed compensation

Fixed compensation consists of base compensation, which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles, as well as employer contributions to superannuation funds.

3.2.2 Performance-linked compensation

The Company currently has no performance based remuneration built into director or executive remuneration packages.

3.2.3 Long-term incentive

Incentive options have been issued to non-executive directors of the Company. The ability to exercise the options is conditional upon the non-executive directors achieving certain vesting conditions. These vesting conditions are set for each non-executive director and are based on the time spent providing their services to the Company.

3.2.4 Service contracts

Mr Craig Burton, Executive Director, has entered a contract for executive services dated 1 July 2005 that was subsequently amended on 11 July 2006 to reflect market rates for the role and the scope of the business. The contract is capable of termination upon one (1) month written notice by either party. No other key personnel have service contracts in place with the Group.

Non-Executive Directors

Total compensation for all non-executive Directors is not to exceed \$180,000 per year as detailed in the Company's Constitution.

3.3 Directors and Executive Officers' Remuneration (Company and consolidated) - Audited

The following table sets out remuneration paid to Directors and key executive personnel of the Company and the consolidated entity during the reporting period:

Directors' Remuneration – 2006/07	Primary Directors Fees	Post-Employment Super Contributions	Equity Share based Payments	Total
Craig Burton ^(A)	\$76,667	-	\$2,668	\$79,335
Jim Malone ^(B)	\$24,250	\$682	\$2,146	\$27,078
Michael Fry	\$22,936	\$2,064	\$2,146	\$27,146
Frank Petruzzelli*	-	-	-	-
Mark Elliott*	-	-	-	-
Total Remuneration	\$123,853	\$2,746	\$6,960	\$133,559

* Frank Petruzzelli and Mark Elliott were appointed as Directors following the General Meeting which was held on 29 June 2007.

Directors' Remuneration – 2005/06	Primary Directors Fees	Post-Employment Super Contributions	Equity Share based Payments	Total
Craig Burton ^(A)	\$90,000	-	\$20,665	\$110,665
Jim Malone ^(B)	\$16,115	\$1,450	\$2,093	\$19,658
Michael Fry	\$16,115	\$1,450	\$2,093	\$19,658
Total Remuneration	\$122,230	\$2,900	\$24,581	\$149,981

Executive's Remuneration – 2006/07 Consolidated Entity	Primary Consulting services	Post-employment Super contributions	Equity Share based payments	Total
Brett Mitchell (Financial Controller) ^(C)	\$60,000	-	-	\$60,000
Total Remuneration	\$60,000	-	-	\$60,000

Executive's Remuneration – 2005/06 Consolidated Entity				
Brett Mitchell (Financial Controller) ^(C)	\$53,900	-	\$2,234	\$56,134
Total Remuneration	\$53,900	-	\$2,234	\$56,134

(A) Remuneration payments to Mr Burton were made to a related entity, Verona Capital Pty Ltd.

(B) Remuneration payments to Mr Malone were made to a related entity, Kilkenny Enterprises Pty Ltd.

(C) Remuneration payments to Mr Mitchell were made to a related entity, Sibella Capital Pty Ltd.

3.4 Equity Instruments

3.4.1 Options granted as compensation - audited

During the period, no options were granted as compensation to the directors and officers of the Company. Information for the previous financial period is shown in the table below.

2006/07 Directors and Executives	Number of Options granted during 2006/07	Grant Date	Number of Options vested during 2006/07	Fair value per Option at Grant Date (\$)	Exercise price per Option (\$)	Expiry Date
Craig Burton	-	17/12/2004	-	0.007620	0.30	18/12/2009
Jim Malone	-	1/06/2005	240,000	0.008940	0.20	18/12/2009
Michael Fry	-	1/06/2005	240,000	0.008940	0.20	18/12/2009
Brett Mitchell	-	1/06/2005	-	0.008940	0.20	18/12/2009
Frank Petruzzelli*	-	-	-	-	-	-
Mark Elliott*	-	-	-	-	-	-

* Frank Petruzzelli and Mark Elliott were appointed as Directors following the General Meeting which was held on 29 June 2007.

2005/06 Directors and Executives	Number of Options granted during 2005/06	Grant Date	Number of Options vested during 2005/06	Fair value per Option at Grant Date (\$)	Exercise price per Option (\$)	Expiry Date
Craig Burton	-	17/04/2004	-	0.007620	0.30	18/12/2009
Jim Malone	-	1/06/2005	260,000	0.008940	0.20	18/12/2009
Michael Fry	-	1/06/2005	260,000	0.008940	0.20	18/12/2009
Brett Mitchell	-	1/06/2005	250,000	0.008940	0.20	18/12/2009

Vesting Conditions

Grant Date	Employee Entitled	Number of Options	Vesting Conditions	Expiry Date
17 Dec. 2004	Craig Burton	3,000,000	Vested on issue	18 December 2009
1 June 2005	Jim Malone	500,000	20,000 per month of service	18 December 2009
1 June 2005	Michael Fry	500,000	20,000 per month of service	18 December 2009
1 June 2005	Brett Mitchell	250,000	20,000 per month of service	18 December 2009
	Total no. of Options	4,250,000		

No terms of equity-settled share-based payment transactions have been altered or modified during the reporting period.

During the reporting period no shares were issued on the exercise of options previously granted as compensation. All options expire on the earlier of their expiry date or on termination of the individual's employment. The options are exercisable on annual basis four years from grant date.

3.4.2 Value of options issued to Directors and executives – audited

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binominal option-pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binominal option-pricing model.

	Directors' Options Issued - 17 Dec. 2004	Directors/Executives' Options Issued - 1 June 2005
Fair value at measurement date (cents per option)	0.7620	0.8940
Share price at grant date (cents per share)	20	20
Exercise price (cents per option)	30	20
Expected volatility (<i>expressed as weighted average volatility used in the modelling under binominal option-pricing model</i>)	50%	50%
Option life (<i>expressed as weighted average life used in the modelling under binominal option-pricing model</i>)	5.0 years	4.5 years
Expected dividends	-	-
Risk-free interest rate (<i>based on national government bonds</i>)	5.17%	5.17%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

3.4.3 Analysis of options over equity instruments granted as compensation - unaudited

Details of vesting profile of the options granted as remuneration to each director of the Company and each named Company executive and relevant group executives is detailed below.

2006/07 Directors and Executives	Number of Options	Grant Date	% vested in year	Forfeited in year (A)	Financial years in which grant expires	Value yet to vest (\$)	
						Min (B)	Max (C)
Craig Burton	3,000,000	17/12/2004	-%	-%	1 July 2009	Nil	-
Jim Malone	500,000	1/06/2005	48%	-%	1 July 2009	Nil	-
Michael Fry	500,000	1/06/2005	48%	-%	1 July 2009	Nil	-
Brett Mitchell	250,000	1/06/2005	0%	-%	1 July 2009	Nil	-

2005/06 Directors and Executives	Number of Options	Grant Date	% vested in year	Forfeited in year (A)	Financial years in which grant expires	Value yet to vest (\$)	
						Min (B)	Max (C)
Craig Burton	3,000,000	17/12/2004	-%	-%	1 July 2009	Nil	-
Jim Malone	500,000	1/06/2005	48%	-%	1 July 2009	Nil	-
Michael Fry	500,000	1/06/2005	48%	-%	1 July 2009	Nil	-
Brett Mitchell	250,000	1/06/2005	98%	-%	1 July 2009	Nil	-

- (A) The % forfeited represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.
- (B) The minimum value of options yet to vest is \$nil as the performance criteria may not be met and consequently the option may not vest.
- (C) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised.

3.4.4 Analysis of movements in options - unaudited

During the year no options were granted to Directors as compensation.

4. PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial period consisted of evaluation, development of onshore oil and gas prospects and production of gas in California.

5. RESULTS AND DIVIDENDS

The loss after tax attributable to members of the Consolidated Entity for the financial period ending 30 June 2007 was \$907,010 (2006: 177,366). The Parent Company loss after tax was \$4,745,069 (2006: loss of \$1,186,305).

No dividends have been paid or declared by the Company during the period ended 30 June 2007 (2006: nil).

6. LOSS PER SHARE

The basic loss per share for the Consolidated Entity for the year was 0.9 cents per share (2006: 0.2 cents).

7. EVENTS SUBSEQUENT TO REPORTING PERIOD

On 21 August 2007 the Company announced to the ASX that its subsidiary, Solimar Energy LLC, had signed a Farmout Agreement with Sunset Energy Limited ("Sunset") involving Solimar's Maricopa and Deer Creek Projects which are located in the San Joaquin Basin in the southern part of California, USA.

Under the agreement, Solimar has agreed to offer to Sunset a 50% working interest in the Maricopa and Deer Creek Prospect Areas in exchange for Sunset agreeing to fund 100% of the cost to drill and complete 2 wells, one on each Prospect Area. The two wells are to be proposed and drilled within 12 months subject to rig availability and Sunset securing its finances. The estimated cost for drilling and completion of the two wells is US\$1,450,000. Solimar will be the Operator.

In addition, Sunset will pay Solimar US\$200,000 on the date of Sunset securing its finances. This payment is to partially cover back costs associated with the development of the two projects. In addition, Sunset will pay 50% of all other future costs and expenses, including leasing, surveying, permitting and seismic associated with these two Prospect Areas.

On 25 September 2007, Michael Fry resigned as a Director of Solimar Energy Limited.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to pursue activities within its corporate objectives. Further information about likely developments in the operations of the Company and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Company.

9. ENVIRONMENTAL REGULATION

Solimar Energy is subject to significant environmental exploration, development and production activities in the USA. The Company is committed to undertaking all of its exploration, development and production activities in an environmentally responsible manner.

10. DIRECTORS' AND EXECUTIVES' INTERESTS

As at the date of this report, the interests of the Directors in the shares and options of Solimar Energy Limited ("the Company") were:

2006/07 Directors and Executives	Number of Shares	Options, exercisable at 30 cents	Incentive Options, exercisable at 20 cents	Options, exercisable at 25 cents
Jim Malone	40,000	-	500,000	-
Craig Burton	4,525,000	3,000,000	-	-
Michael Fry	200,000	-	500,000	-
Brett Mitchell	120,000	-	250,000	-
Frank Petruzzelli*	8,845,827	-	-	2,375,000
Mark Elliott*	9,950,000	-	-	500,000
Total	23,680,827	3,000,000	1,250,000	2,875,000

* Frank Petruzzelli and Mark Elliott were appointed as Directors following the General Meeting which was held on 29 June 2007. The issue of options to these two new directors was approved by shareholders at this meeting and formed part of the purchase consideration for the combination of Livingstone and Solimar.

2005/06 Directors and Executives	Number of Shares	Options, exercisable at 30 cents	Incentive Options, exercisable at 20 cents	Options, exercisable at 25 cents
Jim Malone	40,000	-	500,000	-
Craig Burton	4,525,000	3,000,000	-	-
Michael Fry	100,000	-	500,000	-
Brett Mitchell	120,000	-	250,000	-
Total	4,785,000	3,000,000	1,250,000	-

11. SHARE OPTIONS

11.1 Options granted to officers of the Company

During or since the end of the financial year, the Company has not granted any options to the director or officers of the Company as part of their remuneration. Options were however granted to the new directors, Frank Petruzzelli and Mark Elliott, as part of the purchase consideration for the consolidation of Livingstone and Solimar.

11.2 Unissued shares under options

As at the date of the report, there were 28,750,000 unlisted options on issue, detailed as follows:

Number of Options	Exercise Price	Expiry Date
17,500,000	\$0.30	18/12/2009
1,250,000	\$0.20	18/12/2009
10,000,000	\$0.25	18/12/2009

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

11.3 Shares issued on exercise of options

During and since the end of the financial period no shares were issued as a result of the exercise of options.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

12.1 Indemnification

An indemnity agreement has been entered into with most of the Directors of the Company and is in the process of being signed by the new Directors, Frank Petruzzelli and Mark Elliott, and the Company Secretary, Chris Bowyer. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

12.2 Insurance

During the financial year the Company has taken insurance in respect of directors' and officers' liability and legal expenses' for directors and officers.

13. CORPORATE STRUCTURE

Solimar Energy Limited is a Company limited by shares that is incorporated and domiciled in Australia.

14. NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties. These non-audit services that were provided by KPMG to the Company during the financial year totalled \$3,100 (2005/06: \$41,635).

Services other than statutory audit	2006/07 (\$)	2005/06 (\$)
Auditors of the Company		
<i>KPMG Australia:</i>		
Taxation compliance services	\$3,100	\$2,000
Advisory services in respect to capital raising	-	\$32,073
AIFRS accounting services	-	\$7,562
Total non-audit services	\$3,100	\$41,635

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's Independence Declaration is set out on page 15 and forms part of the Directors' report for the financial year ended 30 June 2007.



Frank Petruzzelli
Chairman
Solimar Energy Limited
Melbourne, 28 September 2007



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 audit for the financial year ended 30 June 2007 there have been:

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

A handwritten signature in blue ink, appearing to read 'T R Hart', written over the printed name.

KPMG

T R Hart
Partner

Perth
28 September 2007

- 1 In the opinion of the directors of Solimar Energy Limited ("the Company"):
 - a. The financial statements and notes (and the remuneration disclosures that are contained in sections 3.2, 3.3, 3.4.1 and 3.4.2 of the Remuneration report in the Directors report), set out on pages 4 to 8, are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2007 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - ii. Complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b. the remuneration disclosures that are contained in sections 3.2, 3.3, 3.4.1 and 3.4.2 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.
 - c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Executive Director for the financial year ended 30 June 2007.

Dated at Melbourne this 28th day of September 2007.

Signed in accordance with a resolution of the directors.



Frank Petruzzelli
Chairman
Solimar Energy Limited



Independent auditor's report to the members of Solimar Energy Limited (formerly Livingstone Petroleum Limited)

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Solimar Energy Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in sections 3.2, 3.3, 3.4.1 and 3.4.2 of the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the Company are responsible for the preparation and fair presentation of the 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 control relevant to the preparation and fair presentation of the 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. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an



opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Solimar Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in or paragraphs 3.2, 3.3, 3.4.1 and 3.4.2 of the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

T R Hart
Partner

Perth
28 September 2007

SOLIMAR ENERGY LIMITED
INCOME STATEMENT
For the year ended 30 June 2007

	Note	Consolidated		Parent	
		2007 AUD	2006 AUD	2007 AUD	2006 AUD
Professional fees	7	(197,530)	-	(206,754)	(87,112)
Personnel expenses	8	-	-	(133,559)	(131,550)
Impairment charges	12	-	-	(4,318,920)	(1,345,312)
Exploration expenditure	14	(551,231)	(177,366)	-	-
On-site Costs		(210,810)			
Other		(8,044)	-	(103,273)	(71,631)
Results from operating activities		<u>(967,615)</u>	<u>(177,366)</u>	<u>(4,762,506)</u>	<u>(1,635,605)</u>
Financial Income	6	60,605	-	45,186	455,664
Financial Expenses	6	-	-	(27,749)	-
Net financial income		<u>60,605</u>	<u>-</u>	<u>17,437</u>	<u>455,664</u>
Loss before income tax		<u>(907,010)</u>	<u>(177,366)</u>	<u>(4,745,069)</u>	<u>(1,179,941)</u>
Income tax expense	9	-	-	-	(6,364)
Loss for the year attributable to equity holders of Solimar Energy Ltd		<u>(907,010)</u>	<u>(177,366)</u>	<u>(4,745,069)</u>	<u>(1,186,305)</u>
Loss per share for profit attributable to the ordinary equity holders of the Company:					
Basic loss per share (cents per share)	10	<u>(0.9)</u>	<u>(0.2)</u>		
Diluted loss per share (cents per share)	10	<u>(0.9)</u>	<u>(0.2)</u>		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 23 to 47.

SOLIMAR ENERGY LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2007

Consolidated			Accumulated		Total
For the year ended 30 June 2007	Note	Issued capital	losses	Reserves	equity
		AUD	AUD	AUD	AUD
Balance at 1 July 2006		-	(177,366)	-	(177,366)
Share issue net of cost	19	17,103,294	-	-	17,103,294
Effect of translation of foreign operations to group presentation currency	20	-	-	(71,286)	(71,286)
Net loss for the period - total recognised expense		-	(907,010)	-	(907,010)
Balance at 30 June 2007		17,103,294	(1,084,376)	(71,286)	15,947,632

Consolidated

For the year ended 30 June 2006

Balance at 1 July 2005		-	-	-	-
Equity settled share based payment transactions		-	-	-	-
Share issue net of cost		-	-	-	-
Effect of translation of foreign operations to group presentation currency		-	-	-	-
Exploration costs		-	-	-	-
Net loss for the period		-	(177,366)	-	(177,366)
Balance at 30 June 2006		-	(177,366)	-	(177,366)

Parent			Accumulated		Total
For the year ended 30 June 2007	Note	Issued capital	losses	Reserves	equity
		AUD	AUD	AUD	AUD
Balance at 1 July 2006		9,503,390	(1,260,927)	506,595	8,749,058
Equity settled share based payment transactions	20	-	-	6,960	6,960
Options issued pursuant to the Solimar Implementation Agreement	31	-	-	850,000	850,000
Share issue net of cost	19	10,039,050	-	-	10,039,050
Net loss for the period - total recognised expense		-	(4,745,069)	-	(4,745,069)
Balance at 30 June 2007		19,542,440	(6,005,996)	1,363,555	14,899,999

Parent

For the year ended 30 June 2006

Balance at 1 July 2005		5,187,628	(74,622)	500,175	5,613,181
Equity settled share based payment transactions	20	-	-	6,420	6,420
Share issue net of cost	19	4,315,762	-	-	4,315,762
Net loss for the period - total recognised expense		-	(1,186,305)	-	(1,186,305)
Balance at 30 June 2006		9,503,390	(1,260,927)	506,595	8,749,058

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 23 to 47.

SOLIMAR ENERGY LIMITED
BALANCE SHEET
As at 30 June 2007

		Consolidated		Parent	
		2007	2006	2007	2006
		AUD	AUD	AUD	AUD
Current assets					
Cash and cash equivalents	11	4,818,720	-	19,440	2,979,815
Trade and other receivables	12	170,731	-	25,342	20,050
Total current assets		4,989,451	-	44,782	2,999,865
Non-current assets					
Receivables	12	-	-	8,557,514	8,976,699
Investments	13	-	-	7,450,193	193
Exploration and development	14	12,110,670	-	-	-
Total non-current assets		12,110,670	-	16,007,707	8,976,892
Total assets		17,100,121	-	16,052,489	11,976,757
Current liabilities					
Trade and other payables	15	491,399	177,596	491,016	254,545
Borrowings	16	655,110	-	655,110	-
Funds held on Trust	17	-	-	-	2,966,790
Income tax provision	18	5,980	-	6,364	6,364
Total current liabilities		1,152,489	177,596	1,152,490	3,227,699
Total liabilities		1,152,489	177,596	1,152,490	3,227,699
Net assets		15,947,632	(177,596)	14,899,999	8,749,058
Equity					
Issued capital	19	17,103,294	-	19,542,440	9,503,390
Reserves	20	(71,286)	-	1,363,555	506,595
Accumulated losses	21	(1,084,376)	(177,596)	(6,005,996)	(1,260,927)
Total equity		15,947,632	(177,596)	14,899,999	8,749,058

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 23 to 47.

SOLIMAR ENERGY LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 June 2007

		Consolidated		Parent	
	Note	2007 AUD	2006 AUD	2007 AUD	2006 AUD
Cash flows from operating activities					
Cash paid to suppliers and employees		(241,384)	-	(224,473)	(60,637)
Net cash from operating activities	25	(241,384)	-	(224,473)	(60,637)
Cash flows from investing activities					
Payment for exploration and evaluation expenditure	14	(2,110,632)	-	-	-
Cash balance acquired	31	19,440	-	-	-
Net cash from investing activities		(2,091,192)	-	-	-
Cash flows from financing activities					
Proceeds from the issue of share capital	19	6,000,000	-	633,210	7,637,164
Share issue costs	19	(13,372)	-	(160,950)	(354,612)
Interest received	6	60,605	-	45,186	71,906
Interest Paid		-	-	(8,723)	-
Loan received from Related Party	16	581,783	-	655,110	-
Loan received from shareholders		593,566	-	-	-
Loan to controlled entity		-	-	(3,899,735)	(6,022,141)
Net cash from financing activities		7,222,582	-	(2,735,902)	1,332,317
Net increase in cash and cash equivalents		4,890,006	-	(2,960,375)	1,271,680
Cash and cash equivalents at 1 July		-	-	2,979,815	1,708,135
Effect of exchange rate fluctuations on cash held	20	(71,286)	-	-	-
Cash and cash equivalents closing balance	11	4,818,720	-	19,440	2,979,815

The cash flow statements are to be read in conjunction with the notes to the financial statements set out on pages 23 to 47.

1. Reporting Entity

Solimar Energy Limited (the 'Company') formerly known as Livingstone Petroleum Ltd, is a company domiciled in Australia. The address of the Company's registered office is Ground Floor, 8 Colin Street, West Perth WA 6005. The consolidated financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in exploration and development of oil and gas properties in California, USA.

2. Basis of Preparation

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The Company's and the consolidated financial report of the Group also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

Livingstone Petroleum Limited acquired 100% of Solimar Australia Energy Proprietary Limited (Solimar Australia) on 29 June 2007. The consideration for the acquisition was AUD\$7,450,000 and was paid by the issue of the Company's shares to Solimar Australia. Under the terms of AASB 3 'Business Combinations' Solimar Australia was deemed to be the accounting acquirer in the business combination, and consequently the transaction has been accounted for as a reverse acquisition under AASB 3. The consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of Solimar Australia. As the deemed acquirer, Solimar Australia has accounted for the acquisition of Livingstone Petroleum Limited from 29 June 2007. The comparative information for the 2006 financial year is that of Solimar Australia. Refer to Note 31 for further details of the business combination.

Solimar Australia began activities at the beginning of the financial year. The US subsidiary was incorporated in March 2006 and began significant activities in the 2007 year.

The financial statements were approved by the Board of Directors on 28 September 2007.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

(c) Functional and Presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The functional currency of the Company's foreign subsidiaries is US dollars.

The functional currency of each of the Group's entities measured uses the currency of the primary economic environment in which each of the entities operate.

(d) Use of estimates and judgements

The preparation of financial statements 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Refer to Note 31 for details of the business combination that occurred during the current financial year.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(iii) Jointly controlled operations

The consolidated entity's interests in unincorporated joint ventures are brought to account by including its proportionate share of joint venture operations' assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

(c) Financial instruments

(i) Non- derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(l).

Investments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

(ii) Share Capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost or less accumulated depreciation (see below) and impairment losses (see accounting policy 3(h)). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and moving the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the well to the production phase.

(ii) Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

With the exception of freehold land and development assets, depreciation is charged to the income statement using a diminishing value method over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Mining property and development assets are depreciated on the units of production basis over the life of the economically recoverable reserves.

The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment 2.5 to 10 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Exploration Expenditure

Exploration and evaluation costs, which are intangible costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy 3(h)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to development assets within property, plant and equipment.

(f) Other receivables

Other receivables are recorded at amortised cost less any allowance for doubtful debts.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(h) Impairment

The carrying amounts of the group's assets, other than exploration assets (see accounting policy 3(e)), and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy 3(h)(i)).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(j) Calculation of recoverable amount

The recoverable amount of the group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed individually as impaired is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee Benefits

(i) Share-based payment transactions

The directors may, at their discretion, issue options to employees or consultants of the Company or consolidated entity as part of their compensation arrangement. The fair value of options granted is recognised as an employee or consultant's expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(ii) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date representing present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss when they are due.

(j) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(i) Site restoration

In accordance with the consolidated entity's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated over the useful life of the mineral reserve. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(k) Trade and other payables

Trade and other payables are non-interest bearing liabilities stated at amortised cost and settled within 30 days.

(l) Finance income and expenses

Net financial income comprise interest payable on borrowings calculated using the effective interest method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(m) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or to the extent that the group has deferred tax liabilities with the same taxation authority.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(o) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(p) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(q) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts arising from the release of AASB 7*. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.

- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively. Interpretation 10 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.
- Interpretation 11 *AASB 2 Share-based Payment -- Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to international Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.
- ASB101 *Presentation of Financial Statements* (October 2006) removes Australian specific paragraphs (economic dependence and where functional currency is different to presentation currency) and example formats for balance sheet and income statement in appendix. The revised standard is applicable for annual reporting periods commencing on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.
- AASB 2007-4 Amendments to Australian Accounting Standards (April 2007) arising from ED151 and Other Amendments implements the proposals in ED151 *Australian Additions to, and Deletions from, IFRSs* amends 34 standards. AASB 2007-4 introduces changes to accounting for government grants and new accounting policy choices and removal of various Australian-specific disclosure requirements (internationalising specific Australian treatments) and now allows the following:
 - choice of reporting in cash flow statement from direct only to now include indirect
 - proportionate consolidation for joint ventures
 - tax reconciliation to be done on tax rate basisAASB 2007-4 is applicable for annual reporting periods beginning on or after 1 July 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.
- AASB 2007-7 Amendments to Australian Accounting Standards amends AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 2 Share-based Payment, AASB 4 Insurance Contracts, AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 107 Cash Flow Statements and AASB 128 Investments in Associates. AASB 2007-7 makes editorial amendments to six Standard; it removes the encouragement in AASB 107 Cash Flow Statements to adopt a particular format for the cash flow statement and deletes superseded implementation guidance accompanying AASB 4 Insurance Contracts. AASB 2007-7 is applicable for annual reporting periods commencing on or after 1 July 2007 and it is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Determination of fair values

The following Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The fair value of employee stock options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. Segment information

During the year Solimar Energy Limited operated in one business segment – mineral exploration, development and production of gas in one geographical area – USA.

6. Net financial income/(expenses)

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Financial Income				
Interest received	60,605	-	45,186	71,906
Foreign exchange gain	-	-	-	383,758
	60,605	-	45,186	455,664
Financial Expenses				
Foreign exchange loss	-	-	19,026	-
Interest paid	-	-	8,723	-
	-	-	27,749	-
Net financial income	60,605	-	17,437	455,664

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Professional fees

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
(a) Auditor's Fees				
Auditors of the Company				
KPMG Australia				
Other Services - recognised in equity as share issue costs	-	-	-	32,073
Audit and Review of financial reports	-	-	49,053	21,866
Taxation	-	-	3,100	2,000
Other Services	-	-	-	7,562
Total auditor's fees recognised as expense in the income statement	-	-	52,153	63,501
(b) Other Professional Fees				
Consulting Fees	-	-	148,717	-
Share based payments	175,000	-	-	-
Other professional fees	22,530	-	5,884	55,684
	197,530	-	154,601	55,684
	197,530	-	206,754	119,185

8. Personnel expenses

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Directors Fees	-	-	110,582	125,130
Share Based Payments	-	-	6,960	6,420
Wages and Salaries	-	-	16,017	-
	-	-	133,559	131,550

Solimar Australia had no employees during the financial year and also did not pay or accrue any director fees.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Income tax expense

	Consolidated		Parent	
	2007 AUD	2006 AUD	2007 AUD	2006 AUD
Current tax expense				
Current year	-	-	-	6,364
Adjustments for prior years	-	-	-	-
	-	-	-	6,364
Deferred tax expense				
Origination and reversal of temporary differences	-	-	-	-
	-	-	-	-
Total income tax expense in income statement	-	-	-	6,364
Attributable to:				
Continuing operations	-	-	-	6,364
Discontinuing operations	-	-	-	-
	-	-	-	6,364
Numerical reconciliation between tax expense and pre-tax net profit				
Profit / (loss) before tax - continuing operations	(907,009)	(177,366)	(4,745,069)	(1,179,941)
Profit / (loss) before tax - discontinued operations	-	-	-	-
Profit / (loss) before tax	(907,009)	(177,366)	(4,745,069)	(1,179,941)
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	(272,103)	(53,210)	(1,423,521)	(353,982)
<i>Increase in income tax expense due to:</i>				
Non deductible expenses	52,500	-	1,311,123	376,536
Effect of tax losses previously unrecognised	-	-	-	(16,190)
Future tax benefit not brought into account	(219,603)	(53,210)	(112,398)	-
Income tax expense on pre-tax net profit	-	-	-	6,364
Deferred Income Tax				
<i>Deferred Tax Liabilities</i>				
Capitalised exploration costs	(730,392)	-	-	-
<i>Deferred Tax Assets</i>				
Revenue losses available for offset against future taxable income	593,128	-	-	-
Deductible temporary differences	730,392	-	-	-
Net deferred tax assets not recognised as not probable	593,128	-	-	-
Net deferred tax assets recognised	-	-	-	-

10. Earnings per share

Basic loss per share

The calculation of basic earnings per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of \$907,010 (2006:\$177,366) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 97,028,304 (2006:96,666,660) calculated as follows:

Loss attributable to ordinary shareholders

	Consolidated	
	2007	2006
	AUD	AUD
Loss for the period	(907,010)	(177,366)
Loss attributable to ordinary shareholders	<u>(907,010)</u>	<u>(177,366)</u>

Weighted average number of ordinary shares

	Consolidated	
	2007	2006
	Number	Number
Opening Balance	96,666,660	96,666,660
Effect of Reverse Acquisition treatment to calculate weighted average number of shares	361,644	-
Weighted average number of ordinary shares at 30 June	<u>97,028,304</u>	<u>96,666,660</u>

Basic loss per share

	Consolidated	
	2007	2006
	AUD	AUD
Basic loss per share (cents per share)	(0.9)	(0.2)

Diluted earnings per share is not required to be disclosed as a loss was incurred and any dilution applied to earnings per share would have an anti-dilutive effect.

11. Cash and cash equivalents

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Cash at bank and on hand	58,473	-	19,440	2,633,338
Call Deposits	4,760,247	-	-	346,477
Cash and cash equivalents in the statement of cashflows	<u>4,818,720</u>	<u>-</u>	<u>19,440</u>	<u>2,979,815</u>

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Trade and other receivables

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Current				
Trade receivables	-	-	-	-
Other receivables and prepayments	170,731	-	25,342	20,050
	<u>170,731</u>	<u>-</u>	<u>25,342</u>	<u>20,050</u>
Non-current				
Loans to controlled entities net of impairment	-	-	8,557,514	8,976,699
	<u>-</u>	<u>-</u>	<u>8,557,514</u>	<u>8,976,699</u>

Loans to controlled entities are denominated in US dollars, non interest bearing and repaid on demand subject to availability of cash in the controlled entity. The loans are shown net of impairment losses amounting to \$4,318,920 (2006:\$1,345,312) recognised in the current year.

13. Investments

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Investments in controlled entities - at cost	-	-	7,450,193	193
<i>Livingstone Energy Inc</i>				
<i>Solimar Australia Energy Pty Ltd</i>				
	<u>-</u>	<u>-</u>	<u>7,450,193</u>	<u>193</u>

14. Exploration and development expenditure

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
a) Exploration expenditure	12,110,670	-	-	-
	<u>12,110,670</u>	<u>-</u>	<u>-</u>	<u>-</u>

(a) Reconciliation of movement in exploration expenditure

Balance at the beginning of the period	-	-	-	-
Additions	1,905,332	177,366	-	-
Additions - Equity Settled	2,316,318	-	-	-
Acquired through Acquisition	8,440,251	-	-	-
Amounts expensed during year	(551,231)	(177,366)	-	-
Balance at the end of the period	<u>12,110,670</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amounts				
Balance at the beginning of the period	-	-	-	-
Balance at the end of the period	<u>12,110,670</u>	<u>-</u>	<u>-</u>	<u>-</u>

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Trade and other payables

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Trade Payables	459,530	177,366	459,147	250,453
Other payables and accrued expenses	31,869	-	31,869	4,092
	491,399	177,366	491,016	254,545

Trade and other payables are non-interest bearing liabilities stated at amortised cost and settled within 30 days.

16. Borrowings

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Borrowings	655,110	-	655,110	-
	655,110	-	655,110	-

Funds were borrowed from one of the company directors during the year.

Please refer to note 26 for further details.

Borrowings were acquired in the acquisition.

17. Funds held on trust

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
<i>Non-interest bearing</i>				
Share capital proceeds for shares allotted after the reporting date	-	-	-	2,966,790
	-	-	-	2,966,790

18. Provisions

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Provision for Income Tax				
Balance at the commencement of the period	-	-	6,364	-
Provision made during the period	(384)	-	-	6,364
Provision from acquisition	6,364	-	-	-
Balance at 30 June	5,980	-	6,364	6,364

19. Contributed equity

	Number of securities		Value in AUD	
	2007	2006	2007	2006
Shares on issue:				
Ordinary shares	162,666,661	-	17,116,666	-
Share Issue Cost	-	-	(13,372)	-
	162,666,661	-	17,103,294	-

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Contributed equity (continued)

Parent Entity

Movement in share capital for the period ended 30 June 2006

2006	Ordinary shares	Number of shares	Issue price	AUD
1 July 2005	Opening balance	37,000,001		5,259,626
1 July 2005	Received funds called on fully paid shares prior to 1 July 2005			150,374
1 September 2005	Issue of fully paid shares	15,000,000	\$0.200	3,000,000
28 April 2006	Issue of fully paid shares	4,000,000	\$0.380	1,520,000
30 June 2006	Closing balance	<u>56,000,001</u>		<u>9,930,000</u>
	Less:			
	Share issue costs			<u>(426,610)</u>
				<u>9,503,390</u>

Parent Entity

Movement in share capital for the year ended 30 June 2007

2007	Ordinary shares	Number of shares	Issue price	AUD
1 July 2006	Opening balance	56,000,001		9,503,390
11 July 2006	Allotment of shares	10,000,000	\$0.360	3,600,000
29 June 2007	Issue of fully paid shares for acquisition of Solimar	96,666,660	\$0.068	6,600,000
30 June 2007	Closing balance	<u>162,666,661</u>		<u>19,703,390</u>
	Less:			
	Share issue costs			<u>(160,950)</u>
				<u>19,542,440</u>

Consolidated

Reconciliation of Parent Equity to Consolidated Equity for the year ended 30 June 2007

The consolidated equity for the group at 30 June 2007 includes the following items:

Equity of Solimar Australia Energy Proprietary Limited prior to acquisition	9,666,666
Deemed cost of acquisition	7,450,000
Closing balance	<u>17,116,666</u>
Less:	
Share issue costs	<u>(13,372)</u>
	<u>17,103,294</u>

There is a difference between the contributed equity of the parent entity and that of the group as a result of accounting for the reverse acquisition (Note 31). Per AASB 3 'Business Combinations', Solimar Australia Energy Proprietary Limited is deemed to acquire Livingstone Petroleum Limited which is shown at fair value in the consolidated balance sheet.

From the perspective of the parent, Livingstone Petroleum Limited has acquired all the shares in Solimar Australia Energy Proprietary Limited as the legal parent. This transaction has been accounted for at the cost of the acquisition per the issue of shares to Solimar Australia Energy Proprietary Limited.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Reserves

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Share based payments	-	-	34,035	27,075
Foreign Currency Translation Reserve	(71,286)	-	-	-
Option Premium Reserve	-	-	1,329,520	479,520
	(71,286)	-	1,363,555	506,595
Reconciliation of movement in reserves				
Share-based payments reserve				
Balance at the beginning of period	-	-	27,075	20,655
Equity settled share-based payment transactions	-	-	6,960	6,420
Balance at 30 June	-	-	34,035	27,075
Foreign currency translation reserve				
Balance at the beginning of period	-	-	-	-
Effect of translation of foreign currency operations to group presentation currency	(71,286)	-	-	-
Balance at 30 June	(71,286)	-	-	-
Option Premium reserve				
Balance at the beginning of period	-	-	479,520	479,520
Issue of Options relating to Acquisition (refer note 33)	-	-	850,000	-
Balance at 30 June	-	-	1,329,520	479,520
	(71,286)	-	1,363,555	506,595

Share based payments reserve

The reserve represents the value of options issued under the compensation arrangement that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying options vest and are exercised by the employee or consultant. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

21. Accumulated losses

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Balance at beginning of financial year	(177,366)	-	(1,260,927)	-
Net loss attributable to equity holders	(907,010)	(177,366)	(4,745,069)	(1,260,927)
	(1,084,376)	(177,366)	(6,005,996)	(1,260,927)

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the consolidated entity's business.

(a) Interest rate risk

The Consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

Consolidated 2007	Effective Interest Rate	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Cash and cash equivalents	1.54%	58,473	58,473	-	-	-	-
Term Deposits	5.74%	4,760,247	4,760,247	-	-	-	-
		4,818,720	4,818,720	-	-	-	-

Consolidated 2006	Effective Interest Rate	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Cash and cash equivalents	n/a	-	-	-	-	-	-
Term Deposits	n/a	-	-	-	-	-	-
		-	-	-	-	-	-

Parent 2007	Effective Interest Rate	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Cash and cash equivalents	2.37%	19,440	19,440	-	-	-	-
		19,440	19,440	-	-	-	-

Parent 2006	Effective Interest Rate	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Cash and cash equivalents	5.43%	2,633,338	2,633,338	-	-	-	-
Term Deposits	5.70%	346,477	346,477	-	-	-	-
		2,979,815	2,979,815	-	-	-	-

(b) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in portion to each class of recognised financial asset, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The Company does not have any material risk exposure to any single debtor or group of debtors.

(c) Foreign currency risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Consolidated entity operates internationally and is exposed to foreign exchange risk arising from currency exposure to US dollar.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Financial Instruments (continued)

(d) Net fair values

Methods and assumptions used in determining net fair value.

For assets and other liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The Company has no financial assets where carrying amount exceeds net fair values at balance date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial statements.

23. Capital and other commitments

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Capital Expenditure commitments				
Exploration expenditure				
Within one year	900,000	-	-	-
	900,000	-	-	-
Lease commitments				
Rental Property lease				
Within one year	16,600	-	-	-
	16,600	-	-	-
Remuneration commitments				
Employee remuneration - Directors				
Within one year	-	-	-	140,000
	-	-	-	140,000

24. Consolidated entities

Name of entity	Country of Incorporation	Class of shares	2007	2006
			%	%
Parent Entity				
Solimar Energy Ltd (formerly Livingstone Petroleum Ltd)	Australia	Ordinary		
Controlled Entities				
Livingstone Energy Inc	United States of America	Ordinary	100%	100%
Solimar Australia Energy Pty Ltd	Australia	Ordinary	100%	-
Solimar Energy LLC	United States of America	Ordinary	100%	-

25. Reconciliation of cash flows from operating activities

	Consolidated		Parent	
	2007 AUD	2006 AUD	2007 AUD	2006 AUD
Cash flows from operating activities				
Profit/(loss) for the period	(907,010)	(177,366)	(4,745,069)	(1,186,305)
Adjustments for:				
Impairment charge on intercompany loan	-	-	4,318,920	1,345,312
Writedown of Investment	-	-	-	-
Interest Income	(60,605)	-	(45,186)	(71,906)
Interest Paid	-	-	8,723	-
Foreign exchange gains	-	-	-	(383,758)
Equity settled share based payment expenses	175,000	-	6,960	6,420
Exploration expensed	551,231	177,366	-	-
Income tax expense	-	-	-	6,364
Operating profit before changes in working capital and provisions	(241,384)	-	(455,652)	(283,873)
(Increase) / decrease in trade and other receivables	-	-	(5,292)	(2,927)
(Decrease) / increase in trade and other payables	-	-	236,471	226,163
	(241,384)	-	(224,473)	(60,637)
Income taxes paid	-	-	-	-
Net cash from operating activities	(241,384)	-	(224,473)	(60,637)

26. Director and Executive disclosures

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Jim Malone (resg 29/06/07)
 Michael Fry (resg 24/09/07)
 Mark Elliott (appt 29/06/07)
 Frank Petruzzelli (appt 29/06/07)

Executive directors

Craig Burton

Executives

Brett Mitchell (resg 29/06/07)
 Chris Bowyer (appt 29/06/07)

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' and 'contractor expenses' are as follows:

	Consolidated		Parent	
	2007 AUD	2006 AUD	2007 AUD	2006 AUD
Short term employee benefits	-	-	123,853	176,130
Post employment benefits	-	-	2,746	-
Equity compensation benefits	-	-	6,960	6,420
	-	-	133,559	182,550

Information regarding individual directors and executives compensation and some equity instrument disclosures as permitted by Corporations regulation 2M.3.03 and 2M.6.04, is provided in the Remuneration Report section of the Directors' report on pages 4 to 7.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Director and Executive disclosures (continued)

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties (consolidated)

No loans have been made during the reporting period and at the reporting date there were no loans outstanding to key management personnel and their related parties (2006: nil).

Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

Craig Burton, a director of Solimar Energy Limited, lent money to the parent company during the year. The key terms and conditions of the loan agreement were:

- Funds borrowed were to be used for the sole purpose of meeting expenditure commitments in the normal course of business.
- Interest would accrue at 8%.
- The company would use its best endeavours to undertake a capital raising in order to repay the loan.

The loan was repaid in full after the balance date.

Frank Petruzzelli, a director of Solimar Energy Limited, lent money to Solimar Australia during the year. The money was loaned through three companies that Frank Petruzzelli is a related party of. The three companies loaned the following amounts to Solimar Australia totalling \$631,783.

- Elba Investments Pty Ltd \$50,000
- Your Care Pty Ltd \$285,000
- MC Fleet Services Pty Ltd \$296,783

At the end of the year these amounts had been repaid in full. The amount to Elba Investments Pty Ltd was repaid in cash and the remaining amount of \$581,783 was settled through the issue of Solimar Australia equity.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

		Consolidated		Parent	
		2007	2006	2007	2006
		AUD	AUD	AUD	AUD
<i>Specified Directors</i>					
Craig Burton	(i)	-	-	27,509	24,735
Frank Petruzzelli	(ii)	4,589	-	-	-

- (i) During the period, the Company was charged \$27,509 by Mirabela Nickel Ltd for the recharge of shared overheads and the premises rent costs. Mirabela Nickel Ltd is a company associated with Mr Craig Burton.
- (ii) During the period, Solimar Australia Energy Pty Ltd was charged \$4,589 by MDB, an accounting practice, for the provision of accounting services. Frank Petruzzelli is a partner at MDB.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Director and Executive disclosures (continued)

Assets and liabilities arising from the above transactions

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Trade and other payables	14,650	17,523	14,650	17,523
Borrowings	(i) 655,110	-	655,110	-
Current liabilities	669,760	17,523	669,760	17,523

(i) This was the balance owed to Craig Burton at the end of the financial year. The amount has been repaid in full since balance date.

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Solimar Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2006	Granted as compensation	Exercised	Other Changes	Held at 30 June 2007	Vested during the Year	Vested & exercisable at 30 June 2007
2007 - Directors/Executives							
Craig Burton	3,000,000	-	-	-	3,000,000	-	3,000,000
Jim Malone ¹	500,000	-	-	-	500,000	240,000	500,000
Michael Fry ²	500,000	-	-	-	500,000	240,000	500,000
Brett Mitchell ¹	250,000	-	-	-	250,000	-	250,000
	4,250,000	-	-	-	4,250,000	480,000	4,250,000

* Other changes represent options that expired or were forfeited during the year.

¹ Resigned 29 June 2007 ² Resigned 24 September 2007

Mr Craig Burton's holding of 3,000,000 options were subject to 24 months escrow from the listing date of the Company on the ASX, being 14 September 2004.

	Held at 1 July 2005	Granted as compensation	Exercised	Other Changes	Held at 30 June 2006	Vested during the Year	Vested & exercisable at 30 June 2006
2006 - Directors/Executives							
Craig Burton	3,000,000	-	-	-	3,000,000	-	3,000,000
Jim Malone	500,000	-	-	-	500,000	260,000	260,000
Michael Fry	500,000	-	-	-	500,000	260,000	260,000
Brett Mitchell	250,000	-	-	-	250,000	250,000	250,000
	4,250,000	-	-	-	4,250,000	770,000	3,770,000

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Director and Executive disclosures (continued)

Movement in shares

The movement during the reporting period in the number of ordinary shares in Solimar Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2007 - Directors / Executives	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Issued per Solimar Acquisition	Held at 30 June 2007
Craig Burton	4,525,000	25,000	-	-	-	4,550,000
Jim Malone ¹	40,000	-	-	-	-	40,000
Michael Fry ³	100,000	100,000	-	-	-	200,000
Brett Mitchell ¹	120,000	-	-	-	-	120,000
Frank Petruzzelli ²	-	512,507	-	-	8,333,320	8,845,827
Mark Elliott ²	-	450,000	-	-	9,500,000	9,950,000
Chris Bowyer ²	-	-	-	-	-	-
	4,785,000	1,087,507	-	-	17,833,320	23,705,827

1 Resigned 29 June 2007

2 Appointed 29 June 2007

3 Resigned 24 September 2007

2006 - Directors / Executives	Held at 1 July 2005	Purchases	Received on exercise of options	Sales	Issued per Solimar Acquisition	Held at 30 June 2006
Craig Burton	3,800,000	725,000	-	-	-	4,525,000
Jim Malone	-	40,000	-	-	-	40,000
Michael Fry	-	100,000	-	-	-	100,000
Brett Mitchell	60,000	60,000	-	-	-	120,000
	3,860,000	925,000	-	-	-	4,785,000

No shares were granted to key management personnel during the reporting period as compensation.

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

There were no changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue.

Other related party transactions

Loans are made by the Company to wholly owned subsidiaries for operating costs. Loans outstanding between the Company and its subsidiary have no fixed date of repayment and are non-interest bearing. As at 30 June 2007, the loan to a subsidiary net of impairment charges totalled \$8,557,514 (2006: \$8,976,699).

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Employee benefits

Share-based payments

a) Option Plans

The Company has issued options to the Director as part of their remunerations.

The terms and conditions of the options are as follows, whereby all options are settled by physical delivery of shares:

Grant Date	Employee Entitled	Number of instruments	Vesting conditions	Expiry Date
17 December 2004	Craig Ian Burton	3,000,000	Fully vested on incorporation	18 December 2009
1 June 2005	Jim Lewis Michael Malone	500,000	20,000 per month of service	18 December 2009
1 June 2005	Michael John Fry	500,000	20,000 per month of service	18 December 2009
1 June 2005	Brett Mitchell	250,000	20,000 per month of service	18 December 2009
Total share options		4,250,000		

Set out below are the summaries of options granted to Directors:

Consolidated and parent entity – 2007

Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at end of the period
17/12/2004	18/12/2009	30 cents	3,000,000	-	-	-	3,000,000	3,000,000
01/06/2005	18/12/2009	20 cents	500,000	-	-	-	500,000	500,000
01/06/2005	18/12/2009	20 cents	500,000	-	-	-	500,000	500,000
01/06/2005	18/12/2009	20 cents	250,000	-	-	-	250,000	250,000
29/06/2007	18/12/2009	25 cents	-	2,875,000	-	-	2,875,000	2,875,000
			4,250,000	2,875,000	-	-	7,125,000	7,125,000
Weighted average exercise price			\$0.26					

Consolidated and parent entity – 2006

Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at end of the period
17/12/2004	18/12/2009	30 cents	3,000,000	-	-	-	3,000,000	3,000,000
01/06/2005	18/12/2009	20 cents	500,000	-	-	-	500,000	260,000
01/06/2005	18/12/2009	20 cents	500,000	-	-	-	500,000	260,000
01/06/2005	18/12/2009	20 cents	250,000	-	-	-	250,000	250,000
			4,250,000	-	-	-	4,250,000	3,770,000
Weighted average exercise price			\$0.28					

The options outstanding at 30 June 2007 have an exercise price in the range of \$0.20 to \$0.30 and a weighted average contractual life of 2.9 years.

During the financial year, no options issued under the plan were exercised (2006: nil).

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Employee benefits (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binominal option-pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binominal option-pricing model.

	Directors options 17 April 2004	Directors/Executives options 1 June 2005
Fair value at measurement date (cents per option)	0.7620	0.8940
Share price at grant date (cents per share)	20	20
Exercise price (cents per option)	30	20
Expected volatility <i>(expressed as weighted average volatility used in the modelling under binominal option-pricing model)</i>	50	50
Option life <i>(expressed as weighted average life used in the modelling under binominal option-pricing model)</i>	5 yrs	4.5 yrs
Expected dividends	-	-
Risk-free interest rate <i>(based on national government bonds)</i>	5.17	5.17

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

b) Expenses arising from share-based transactions

	Consolidated		Parent	
	2007	2006	2007	2006
	AUD	AUD	AUD	AUD
Share options granted in 2005 - equity settled	-	-	6,960	6,420
Total expense recognised as employee costs	-	-	6,960	6,420

28. Non-key management personnel disclosures

Identity of related parties

The consolidated entity has a relationship with its subsidiary (note 24) and its key management personnel (note 26).

29. Subsequent events

On 21 August 2007 Solimar Energy Limited announced to the ASX that its subsidiary, Solimar Energy LLC, ("Solimar"), had signed a Farmout Agreement with Sunset Energy Limited ("Sunset") involving Solimar's Maricopa and Deer Creek Projects which are located in the San Joaquin Basin in the southern part of California, USA.

Under the agreement, Solimar has agreed to offer to Sunset a 50% working interest in the Maricopa and Deer Creek Prospect Areas in exchange for Sunset agreeing to fund 100% of the cost to drill and complete 2 wells, one on each Prospect Area. The two wells are to be proposed and drilled within 12 months subject to rig availability and Sunset securing its finances. The estimated cost for drilling and completion of the two wells is US\$1,450,000. Solimar will be the Operator.

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Subsequent events (continued)

In addition, Sunset will pay Solimar US\$200,000 on the date of Sunset securing its finances. This payment is to partially cover back costs associated with the development of the two projects. In addition, Sunset will pay 50% of all other future costs and expenses, including leasing, surveying, permitting and seismic associated with these two Prospect Areas.

30. Interest in joint venture operation

Solimar Energy Limited holds a 50% interest through its subsidiary in the output of a joint venture operation named Forbes Project Joint Venture whose principal activity is gas production and exploration. In May 2007 an exchange agreement was signed with Orchard Petroleum Limited whereby the assets previously held in the joint venture were re-allocated to the individual partners. As at 30 June 2007 one asset remained in the joint venture, known as the South Buckeye project.

Included in the assets and liabilities of the consolidated entity are the following items which represent the Company's and the consolidated entity's interest in the assets and liabilities employed in the joint venture, recorded in accordance with the accounting policies described in Note 3(a)(iii).

	Consolidated		Parent	
	2007 AUD	2006 AUD	2007 AUD	2006 AUD
Current assets				
Trade and other receivables	117,840	-	-	-
Non-current assets				
Exploration and development expenditure	1,674,481	-	-	-
Total non-current assets	1,792,321	-	-	-

31. Business Combination

Livingstone Petroleum Ltd completed the acquisition of Solimar Australia Energy Proprietary Limited on 29 June 2007 through acquiring 100% of their shares. The purchase price was paid for by the issue of Livingstone Petroleum Limited shares to Solimar Australia Energy Proprietary Limited to the value of \$6,600,000 and options to the value of \$850,000.

Deemed Acquirer

Following the transaction Solimar Australia Energy Proprietary Limited holds a controlling interest in Livingstone Petroleum Limited and as a result Solimar Australia Energy Proprietary Limited, the legal subsidiary of Livingstone Petroleum Limited is the deemed acquirer in the business combination. The consolidated Income Statement for the year ended 30 June 2007 represents the annual results of Solimar Australia Energy Proprietary Limited and the results of Livingstone Petroleum Limited from the date of the acquisition. The Balance Sheet at 30 June 2007 represents the financial position of the consolidated group at that time.

Cost of the Business Combination

The cost of the business combination has been determined by reference to the fair value of Livingstone Petroleum Limited as at the date of the business combination and has been determined as follows:

Deemed fair value of Livingstone Petroleum Limited shares issued at date of acquisition	\$6,600,000
Deemed fair value of Livingstone Petroleum Limited options granted at date of acquisition	\$850,000
Percentage Acquired	59.43%
Total cost of business combination	\$7,450,000

SOLIMAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. Business Combination (continued)

The underlying financial position of Livingstone Petroleum Limited as at the date of the business combination is as follows:

	Book Value \$	Adjustment	Fair Value \$
Cash and cash equivalents	19,440	-	19,440
Trade and other receivables	143,182	-	143,182
Property, Plant & Equipment	243,292	-	243,292
Capitalised Exploration	10,486,733	(2,289,774)	8,196,959
Trade and other payables	(491,399)	-	(491,399)
Borrowings	(655,110)	-	(655,110)
Provisions	(6,364)	-	(6,364)
Net Assets	9,739,774	(2,289,774)	7,450,000

The amount of the deemed acquiree's (Livingstone Petroleum Ltd) loss since the acquisition date included in the deemed acquirer's loss for the period is \$Nil.

The revenue and loss of the combined entity for the period as though the acquisition date for the business combination had been effected at the beginning of the period is:

Revenue	\$619,832
Loss	\$4,678,961

1. CORPORATE GOVERNANCE OVERVIEW

The Board of Directors of the Company are committed to good corporate governance taking into account the Company's size and activities and has a range of policies and processes in place to ensure the rights of the Company and our shareholders are protected.

In March 2003, the Australian Stock Exchange Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations"). This document is for guidance purposes, however all listed companies are required to disclose the extent to which they have followed the recommendations; to identify any recommendations that have not been followed and reasons for not doing so.

The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In a limited number of instances, the Company may determine not to meet the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a Company of this size.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australian Stock Exchange ("ASX") Corporate Governance Council recommendations, unless otherwise stated.

The Company's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Lay solid foundations for management and oversight.
- Structure the board to add value.
- Promote ethical and responsible decision making.
- Safeguard integrity in financial reporting.
- Make timely and balanced disclosure.
- Respect the rights of shareholders.
- Recognise and manage risk.
- Encourage enhanced performance.
- Remunerate fairly and responsibly.
- Recognise the legitimate interests of stakeholders.

For further information on Corporate Governance policies adopted by the Company, refer to our website: www.solimarenergy.com.au.

2. BOARD OF DIRECTORS

2.1 Role of the Board

The primary role of the Board of Directors is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for monitoring financial and other reporting.

2.2 Board Processes

The Board has established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The Company listed on ASX in September 2005 and is currently engaged in exploration and evaluation of mineral interest. The critical skills required by the Board in pursuing the Company's business plan at this relatively early stage of its development are expert geological and exploration and evaluation project management skills together with strong fiscal management skills. In addition, each Director is charged with having a thorough understanding of, and responsibility for, the protection of the rights of the Company and its shareholders.

The Board has these skills (refer to the biographies in the Director's Report) and as the Company's business plan progresses will add new Directors as and when complimentary skills are required.

The Board presently comprises three Directors. There are two independent Directors and an Executive Director. The Company engages consultants to provide technical and corporate services. All the senior technical and financial consultants are highly qualified and have previously held roles of executive responsibility in much larger organisations, including companies associated with the petroleum industry.

The Directors, who all live in Melbourne or Perth, meet and talk frequently, both formally and informally, to ensure a mutually thorough understanding of the Company's business and all the Company's policies of corporate governance are adhered to. The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary and is circulated in advance.

2.3 Director Education

The Company has a process to educate any new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning the performance of Directors. Directors are given access to and encouraged to participate in continuing education opportunities to update and enhance their skills and knowledge.

2.4 Independent Professional Advice and access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified advisor at the Company's expense. The Director must consult with an advisor suitably qualified in the relevant field and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other Board members.

2.5 Independence

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. In accordance with this definition, the Company has two independent Directors.

Recommendation 9 states that non-executive directors should not receive options or bonus payments. The Company may award options or other securities to non-executive Directors if it considers this to be a reasonable and appropriate method of assisting in attracting and retaining suitably skilled Board members.

2.6 Nomination Committee

Recommendation 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2007, the Company did not have a separate nomination committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities. The Board does not believe that any

marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee at this stage of the company's life. The Board has reviewed its policy on nominations and incorporates below its summarised policy.

Factors considered for a new candidate include:

- (i) The skills required for appointment to the Board;
- (ii) How differing skills are represented on the Board;
- (iii) Processes for the identification of suitable candidates for the Board;
- (iv) The time commitment required by a Director to effectively discharge duties;
- (v) The number of existing directorships and other commitments that the candidate may have;
- (vi) Assessment of the 'independence' of the candidate; and
- (vii) The extent to which the appointee is likely to work constructively with the existing Directors and contribute to the overall effectiveness of the Board.

The following procedure is followed in selecting and appointing a new Director:

- (i) Utilize personal networks or external consultants to identify potential candidates;
- (ii) Assess appropriateness of candidate with consideration to the above points;
- (iii) Determine the terms, conditions, responsibilities and expectations of the new position;
- (iv) Non-executive Directors should be appointed for specific terms subject to re-election and to the ASX Listing Rules and Corporations Act provisions concerning removal of a Director;
- (v) Ultimate decisions about who is elected to the board are to be made by the shareholders; and
- (vi) Ensuring that the new Board member is inducted and that they have every opportunity to increase their knowledge about the Company to ensure that they can participate in an effective manner to the board deliberations.

3. CONTINUOUS DISCLOSURE POLICY

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- (i) Notify the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the companies securities, unless that information is not required to be disclosed under the listing rules;
- (ii) Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- (iii) Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Company Secretary is responsible for coordinating the disclosure requirements. To ensure appropriate procedure all Directors, officers and employees of the Company coordinate disclosures through the Company Secretary, including:

- (i) Media releases;
- (ii) Analyst briefings and presentations; and
- (iii) The release of reports and operational results.

Information not disclosed via ASX announcement that might be considered share price sensitive will not be discussed with any external parties other than on a confidential basis in order to conduct the business of the Company. Discussions with external parties will only occur following an ASX announcement. All written materials containing new price sensitive information to be used in briefing media, investors and analysts will be notified to the ASX prior to the commencement of that briefing.

In reviewing the content of analysts' reports and profit forecasts, the Company will correct factual inaccuracies or historical matters.

Information is communicated to shareholders as follows:

- (i) The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments.
- (ii) The half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any shareholder who requests it.
- (iii) Quarterly reports are prepared in accordance with ASX listing rules.
- (iv) Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.
- (v) All announcements made to the market, and related information are placed on the Company's website after they are released to the ASX, including regular updates on operations.
- (vi) The full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information is made available on the Company's website, www.solimarenergy.com.au. Copies of all presentations made by the Company in a public forum are posted on the website. The majority of the information is also emailed to all shareholders who lodge their email contact details with the Company.

The external auditor is requested to attend the Annual General Meeting to answer any questions concerning the audit and the auditor's report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of Directors, approval of the maximum amount of Directors' fees and the granting of options and shares to Directors.

4. SHARE TRADING POLICY

The Company has established a policy that imposes certain restrictions on Directors, senior management and other employees trading in the Company's securities. The policy has been adopted to prevent trading in contravention of the insider trading provisions of the Corporations Act 2001, in particular when Company personnel are in possession of price-sensitive information.

In general trading in the Company's securities is prohibited:

- (i) whilst in possession of unpublished price sensitive information;
- (ii) where officers are engaging in the business of active dealing;
- (iii) two weeks before and 24 hours after the release of the Company's quarterly, half yearly or annual report to the ASX; and
- (iv) two weeks before lodgement and during the period that a disclosure document including a prospectus is open for applications except to the extent that a Director or employee is applying for securities pursuant to that disclosure document.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, Directors advise the ASX of any transaction conducted by them in shares or options in the Company.

5. CONFLICT OF INTEREST

In accordance with the Corporations Act and the Company's constitution Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

6. REMUNERATION AND PERFORMANCE ASSESSMENT

6.1 Remuneration Committee

Recommendation 9.2 requires listed entities to establish a remuneration committee. During the year ended 30 June 2007, the Company did not have a separate remuneration committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

6.2 Remuneration Policies

Remuneration of Directors are formalised in service agreements. The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Managing Director and the executive team.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive Directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- (i) Retention and motivation of key executives;
- (ii) Attraction of quality management to the Company; and
- (iii) Performance incentives which allow executives to share the rewards of the success of the Company.

Remuneration of non-executive Directors is determined by the Board with reference to comparable industry levels and, specifically for Directors' fees, within the maximum amount approved by shareholders.

For details on the amount of remuneration and all monetary and non-monetary components for all Directors refer to the Notes to the Financial Statements. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive Directors.

6.3 Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which Directors and executives are assessed is aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently unsatisfactory may be asked to retire.

7. RISK MANAGEMENT

7.1 Oversight of the Risk Management System

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee.

The Executive Director has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

7.2 Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the Company's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

8. AUDIT AND COMPLIANCE POLICY

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and international jurisdictions.

Recommendation 4.3 requires listed entities to have an audit committee consisting of only non-executive directors, a majority of independent directors, an independent Chairperson, who is not Chairperson of the board and at least three members. Recommendation 4.4 requires the audit committee to have a formal charter.

Due to the size and nature of the Company the audit committee function was incorporated into the Boards obligations. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board continues to maintain a framework of internal control and ethical standards for the management of the Company.

The Board consists of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business. The Board meets with the Company's external auditors before finalisation of any audit or review.

All Directors declared in writing that the Company's financial reports for the year ended 30 June 2007 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

9. ETHICAL STANDARDS

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

10. HEALTH, SAFETY, ENVIRONMENT AND HERITAGE PROTECTION POLICY

The Company is committed to compliance with all relevant laws and regulations and continual assessment of its operations to ensure protection of the environment, the community and the health and safety of its employees in Australia and California, USA.

The Company has adopted a policy and maintains appropriate procedures to ensure that all Company activities are carried out in compliance with safety regulations, in a culture where the safety of personnel is paramount and which recognises environmental sustainability and respect for cultural and heritage issues as essential requirements for all its activities. Procedures are maintained to govern the activity of employees and contractors to ensure that the objectives of this policy are met.

SOLIMAR ENERGY LIMITED
ADDITIONAL SHAREHOLDER INFORMATION

EXCHANGE LISTING

Solimar Energy Limited shares are listed on the Australian Securities Exchange (ASX). The Company's ASX code is SGY.

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 25 September 2007

Name of Shareholder	Total Number of Voting Shares in Solimar Energy Limited in which the Substantial Shareholders and its Associates Hold Relevant Interests	Percentage of Total Number of Voting Shares (%)
Saps Overseas Ltd	13,979,160	8.59%
Mark Elliott	9,950,000	6.12%
MC Fleet Services Pty Ltd	9,479,160	5.82%
Your Care Pty Ltd	8,845,827	5.44%

CLASS OF SHARES AND VOTING RIGHTS

At 25 September 2007 there were 764 holders of 162,666,661 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and
- on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited)."

DISTRIBUTION OF SHAREHOLDERS (As at 25 September 2007)

Spread of Holdings	Number of Holders	Number of Ordinary Shares	% of Total Issued Capital
1 – 1,000	4	802	0.00%
1,001 – 5,000	52	184,004	0.11%
5,001 – 10,000	140	1,268,504	0.78%
10,001 – 100,000	400	17,478,144	10.75%
100,001 and over	168	143,735,207	88.36%
Total	764	162,666,661	100.00%

The number of shareholders holding less than a marketable parcel is 24.

ESCROWED SECURITIES

The Company does not have any securities on issue that are subject to escrow restrictions.

SOLIMAR ENERGY LIMITED
ADDITIONAL SHAREHOLDER INFORMATION

CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

LISTING OF 20 LARGEST SHAREHOLDERS (As at 25 September 2007)

	Name of Ordinary Shareholder	Number of Shares Held	Percentage of Shares Held %
1.	MC Fleet Services Pty Ltd	9,479,160	5.83
2.	Bob Rosenthal	8,979,160	5.52
3.	Your Care Pty Ltd	8,479,160	5.21
4.	Farsighted Ltd	7,979,180	4.91
5.	Ryan Moynagh	5,421,688	3.33
6.	Saps Overseas Ltd (Bob Rosenthal)	5,000,000	3.07
7.	Citicorp Nominees Pty Limited	4,352,410	2.68
8.	Wizzdene Pty Ltd	4,000,000	2.46
9.	Carday Holdings Pty Ltd	3,500,000	2.15
10.	Intro Pty Ltd	3,400,000	2.09
11.	A.P.R. Nominees Pty Ltd	3,000,000	1.84
12.	Raymond Jepp	2,750,000	1.69
13.	Craig Ian Burton	2,500,000	1.54
14.	Towertun Pty Ltd	2,500,000	1.54
15.	Nowald Pty Ltd	2,500,000	1.54
16.	Hiles Pty Ltd	2,500,000	1.54
17.	Shellbury Pty Ltd	2,250,000	1.38
18.	Ravenhill Investments Pty Ltd	2,200,000	1.35
19.	Westrail Pty Ltd	2,100,000	1.29
20.	R Pietrolungo Nominees Pty Ltd	2,097,500	1.29
	TOTAL:	84,988,258	52.25%