



# **SOLIMAR ENERGY LIMITED**

ABN 42 112 256 649

**Financial Report  
For the Year Ended  
30 June 2014**

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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 auditor's report thereon for the financial year ended 30 June 2014. The financial report was authorised for issue by the directors on 31 October 2014. The Company has the power to amend and reissue the financial report.

**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 detailed below.

**Mr Frank Petruzzelli BBus (Acc), FNTA, PNA**

Non-Executive Chairman (Age 50; Appointed 29/06/07)

Frank joined the Board on June 29, 2007 in the role of Non-Executive Chairman. His principal occupation for the last five years has been as director of MDB, an Australian accounting firm, which provides taxation and business advice to individuals and private companies. Frank was a founding director of Orchard Petroleum Limited, a Corporation whose primary focus was oil & gas exploration in California, U.S. From July 2003 to November 2012 he was also a director of Golden Gate Petroleum Limited, which specialized in oil and gas exploration, concentrating on oil and gas lease tenements in onshore Gulf of Mexico and the Permian Basin, U.S. Frank is a Fellow of the National Tax and Accountants Association, a Fellow of the Institute of Public Accountants and a registered Tax Agent.

**Mr Jason Bednar BComm CA (Canada)**

Executive Director (Age 43; Appointed 10/10/11)

Jason is a Director of Canacol Energy Ltd. He is the former CFO and Director of MENA Hydrocarbons Inc., an international oil and gas company. Jason is the former CFO and Director of Sagres Energy Inc., an international oil and gas exploration company. He is the former Chairman of Gallic Energy Ltd. Jason is the former CFO of Pan Orient Energy Corp, a South East Asia Exploration company (2004 to April 2009). He is the past Manager of Financial Reporting for Canadian 88 Energy Corp. (1998-2002) and former Controller of Canadian Superior Energy Inc. (2002-2004). Jason is a Chartered Accountant and holds a Bachelor of Commerce degree from the University of Saskatchewan.

**Mr Mark Elliott**

Non-Executive Director (Age 55; Appointed 29/06/07)

Mark has over 27 years' experience in owning and running private companies in Australia and in the United States. He has extensive experience in the oil and gas sector through investments in companies involved in that sector. Mark 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. His principal occupation for the past five years has been as Managing Director of Mirror Image Marble, a private company specializing in the restoration and refinishing of marble and natural stone surfaces. Mark has not held any other directorships in listed companies in the last three years.

**Dr Charle Gamba BSc MSc PhD**

Non-Executive Director (Age 50; Appointed 12/09/11)

Charle is the President, CEO and a director of Canacol Energy Ltd., a public Canadian oil company focused on exploration and production activities in Colombia and Ecuador. He is a current director of Miramar Hydrocarbons Ltd. and past Vice President of Exploration for Occidental Oil and Gas Company (Oxy) in Colombia. Charle was also the Chief Geologist with Oxy in Ecuador and Chief Geoscientist for Oxy in Qatar. He is a geologist with 20 years of multidisciplinary experience in the oil and gas industry in Latin America, Middle East, North America, and South East Asia with Occidental Petroleum, Alberta Energy Company (EnCana), Canadian Occidental (Nexen), and Imperial Oil.

**Mr William Satterfield BS, MA**

Non-Executive Director (Age 52; Appointed 01/06/13)

Will is a petroleum geologist and oil company manager with extensive worldwide experience including the conventional and unconventional reservoirs of the San Joaquin Basin. Will was the chief executive officer of the Company from August 2012 through to June 2013 and prior to his appointment as chief executive officer he was chief operating officer. Before Solimar, he was Country Manager in India for the London Stock Exchange listed Hardy Oil and Gas Inc. Previously, Will worked for 22 years with Occidental Petroleum in increasing positions of responsibility in worldwide geotechnical management, with his most recent as Geosciences Manager for Central and Southern California. Will has not held any other directorships in listed companies in the last three years.

**Mr Ryan Dunfield**

Non-Executive Director (Age 31; Appointed 01/08/12, Resigned 22/07/13)

Ryan is currently working for a North American hedge fund and is based in Calgary. He was previously Vice President with the Vancouver B.C. private equity group Second City Capital Partners, and its affiliate, Gibralt Capital Corporation. Previous to Second City Capital Partners, Ryan worked in the debt capital markets, with exposure to corporate banking, leveraged finance and loan syndications. Ryan was previously a director of Alston Energy Inc. from August 2012 to March 2013, Cardero Resource Corp from September 2012 to August 2013 and CanRock Energy Corp from October 2011 to August 2012. Ryan resigned from the Board of Solimar on 22 July 2013.

**Mr Chris Bowyer BCA BA CA (NZ)**

Company Secretary (Age 45; Appointed 29/06/07, Resigned 28/02/14)

Chris is a chartered accountant with 17 years' experience in public practice as well as the private sector. Chris was previously the Company Secretary of Golden Gate Petroleum Limited and also 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. Chris resigned from the Company on 28 February 2014.

**Mr Chris Ritchie, B.Bus (Acc) Grad Dip Bus, FCPA, FGIA**

Company Secretary, (Age 52; Appointed 01/03/14)

Chris is a CPA and Company Secretary with over 25 years' experience in ASX listed companies. Mr Ritchie has experience in the energy & resources sector with several of Australia's largest engineering contractors and services companies in the financial management of the construction of major oil and gas infrastructure projects. Chris is a Fellow of CPA Australia and a Fellow of the Governance Institute of Australia. Chris is currently the Executive Director of ASX listed OGI Group Ltd.

## **1.1 Directors' Meetings**

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

Director	Board		Audit	
	Present	Held	Present	Held
Frank Petruzzelli	10	12	-	-
Mark Elliott	12	12	4	4
Charle Gamba	9	12	3	4
Jason Bednar	12	12	4	4
Will Satterfield	8	12	-	-

## **1.2 Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Solimar Energy Limited support the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities 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. The Corporate Governance Statement is set out on pages 62 to 69.

## **1.3 Committees**

The Company has an audit committee, remuneration committee and reserves committee which were established during the 2013 financial year. The remuneration and reserves committees did not meet during the year.

## **2 REVIEW OF OPERATIONS**

### **2.1 Exploration and Development Strategy**

The near-term business plan of the Company is to continue with its asset evaluation program through a focused exploration, development and appraisal program. To accomplish this objective, Solimar continues to pursue an integrated strategy of exploration and development drilling in the San Joaquin Basin as well as strategic divestitures, farm-outs and property swaps to high grade the Company's positions.

The Company is largely opportunity driven and will focus its expenditures in areas that are expected to provide the greatest economic return to the Company, recognizing that all drilling involves substantial risk. No assurance can be given that drilling will prove successful in establishing commercially recoverable reserves.

### **2.2 Operational Activities**

#### ***2.2.1 Kreyenhagen: 86.5% - 100% Working Interest and Operator (San Joaquin Basin)***

The first well 2-33 of the Phase 1 program reached TD at 1,472 feet measured depth on 20 July 2013 and was subsequently logged and cased. The well was directionally drilled up to a 48 degree angle and encountered close to 600 feet gross measured depth interval of the Temblor Sand formation.

The second well of the Phase 1 program 8-33 reached target depth at 1,590 feet measured depth on 21 September 2014. The well was directionally drilled to a 48 degree angle, logged and cased. Preliminary analysis indicated that approximately 900 feet gross measured depth of the Temblor Sand formation was encountered.

On 23 December 2013, the Company announced that it had signed a Letter of Intent ("LOI") with its JV partner, that while non-binding, contemplated the following amendments to the original agreement signed in May 2013.

- A testing program in respect of the two well drilled (2-33, 8-33) was agreed by both parties and the cash call in respect of that program has been issued by Solimar to its JV partner.
- The JV partner will agree to pay cash calls for future AFE's in respect of any additional work required as a result of accelerating the testing program on wells 2-33 and 8-33.
- The JV partners will not drill any further wells under Phase 1 of the work program.
- The JV partner's 15% working interest in the Heavy Oil leases will be reduced proportionately for that amount under the original US\$2m commitment to Phase I that had been contemplated in the Farmout Agreement.

- The JV Partner will not earn any interest in the shale leases.
- The JV partner will not participate in the Phase II program and will forego any rights that it would have been entitled to as contemplated in the Farmout Agreement, to increase its working interest in the project in Phase II.

On 3 February 2014, the Company announced it had entered into an amending agreement with the JV partner in the Kreyenhagen Heavy Oil project.

The amending agreement reduces the JV partner's farm-in commitment to US\$1.8 million with a proportional reduction in the earned working interest from 15% to 13.5% and confirms that the JV partner will not participate in a second farm-in phase to earn additional rights or working interest.

The JV partner will participate in the ongoing testing and capital program within the Heavy Oil project at the working interest of 13.5%. This program includes testing planned for the 2-33 well drilled under the joint venture and the drilling and coring of a vertical well, subject to a successful completion of the proposed financing.

The Company has since the start of Phase 1 spent approximately US\$1.8 million to date which has been funded by the JV partner. From an accounting perspective while cash calls are made the Company has only recognised in its books the funds received from the JV partner for its share of the Phase 1 expenditures and netted those off against the capitalised work in progress accounts

During the December quarter the Company also came to an agreement with its partner who it jointly held some of the leases associated with the trend acreage situated at the Kreyenhagen project and at Jacalitos. Both parties agreed to conclude their partnership in these leases and the jointly held leases were split between each party after negotiation.

During the second half of the year, the Company successfully completed and production tested the upper and lower Temblor heavy oil sandstone zones in well 2-33. The lower zone was swab tested using a completion rig for about one week and produced mainly water. The upper zone was produced using a rod pumping unit for about one month and produced mainly oil at rates ranging from 2 to 10 barrels per day. The results were within the expected range and consistent with previous wells in the region. Oil and water samples were taken from both zones to conduct lab analysis for use in evaluating a potential thermal EOR project (steam stimulation).

Forward plans are to drill a new vertical core well to further evaluate the potential for a steam stimulation project. The drilling pad for the new well has already been constructed. The core will provide an improved understanding of rock properties and in-situ fluid saturations. The Company expects to conduct a steam pilot test later in the 2014 calendar year using existing wells that have been completed for thermal production and a steam generator is being fabricated. The permits for the steam pilot test have been secured from the State of California.

#### ***2.2.2 Jacalitos: 86.5% to 100% Working Interest and Operator (San Joaquin Basin)***

This project is contiguous with the Company's Kreyenhagen project and is being re-evaluated as part of the regional Kreyenhagen shale oil play. During the year the Company came to an agreement with its previous partner and increased its interest from 75% to 100% of the project. In September 2014 the Company relinquished its interest in the leases due to the leases expiring. The project has been fully impaired as at 30 June 2014.

### **2.2.3 Tejon Ranch: 10% Working Interest (San Joaquin Basin)**

On 12 August 2013, the Company announced the sale of 47.5% of its 57.5% working interest along with operatorship in the leases located in the Tejon Ranch area of the San Joaquin Valley to its partners for a consideration of US\$250,000. Under the terms of the agreement the Company has sold 28.75% of its 57.5% working interest in the leases to Avere Energy Corp. ("Avere") and 18.75% of its 57.5% working interest and operatorship in the leases to North American Oil and Gas ("NAMG"). The resulting working interest division in the leases is Solimar 10%, NAMG 40% and Avere 50%. In October 2014 the Company was advised by NAMG that it would no longer pay lease delay rentals on certain leases associated with the project and that should the Company not take over the lease delay rentals its interest in those leases will terminate. The Company is currently assessing its options in regard to this decision.

### **2.2.4 Bayswater: 1.13% Working Interest (San Joaquin Basin)**

The recovery of oil in the 1-10 exploration well from the Kreyenhagen Shale in a non-structural position is significant for the regional implications for expanding the play beyond well-defined structural closures. Increased industry activity in the area consisting of land acquisitions, drilling, and permitting of new well locations by various companies illustrates the expanding new play. In September 2014 the Company relinquished its interest in the project due to the expiry of the leases. The project has been fully impaired as at 30 June 2014.

### **2.2.5 Paloma: No further interest (Previously 10.6% Working Interest (San Joaquin Basin))**

The Company having reviewed its position at the Paloma project following its non-consent on cash calls relating to the three wells at Paloma made a decision to discontinue its involvement in the project and relinquished its remaining interests in the leases.

## **2.3 Corporate Development Activities**

### **2.3.1 Financing**

The Company closed a non-brokered private placement on 27 September, 2013 for a total of C\$500,000 raising C\$423,520 through the issue of 28,234,666 shares and 28,234,666 unlisted warrants. Several Directors of the Company also participated in the subscribing for 5,098,667 units (each unit converting into one share and one warrant) for C\$76,480. Their participation was approved by shareholders at the Company's Annual General Meeting on 29 November 2013.

On 31 January 2014, the Company announced that it was, subject to TSXV approval, intending to complete a non-brokered private placement for aggregate gross proceeds of up to C\$2,000,000 via the issuance of Units at a price of C\$0.065 per unit. Each unit will be comprised of one common share and one half of one right. Each right will entitle the holder to acquire one warrant upon shareholder approval of the conversion of the rights to warrants. Assuming shareholder approval is obtained, each warrant will allow the holder to purchase one common share of the Company at a price of C\$0.065 for a 24 month period following closing.

On 22 July 2013, the Company advised that SCCP Solimar Holdings LP had issued a "Notice & Request" to Computershare Trust Company of Canada in its capacity as the Trustee under the Convertible Debenture Indenture dated 26 June 2012 providing for the issuance of convertible debentures by the Company ("June Debenture"). Under the notice of default they had requested the payment of their outstanding interest and principal. The company made arrangements to rectify the event of default through the payment of interest owing of C\$110,000 to the holders of the June Debentures.

On 16 August 2013, the Company announced that it had reached an agreement with holders of the June Debenture. After nearly one month of negotiations, the holders of the June Debentures agreed to waive the event of default under the June Debenture and direct the trustee under the corresponding debenture indenture to cancel the declaration that the outstanding principal and interest owing thereunder was immediately payable on the conditions that the debenture indenture be amended and restated to provide, among other things, as follows:

- The interest payable on the June Debentures was increased to 20% per annum effective 1 July 2013 with 16% being payable on each interest payment date and the additional 4% being accrued and payable upon maturity;
- The maturity date of the June Debentures was brought forward to 31 January 2014. However, at the Company's option and upon the Company and its subsidiaries providing the holders of the Debentures first priority security on all of the Company's and its subsidiaries assets and payment of a C\$250,000 extension fee, payable proportionately to the holders of the June Debentures at the time of extension, the maturity date may be extended to 31 July 2014;
- The Company pays a loan modification fee of C\$500,000, payable proportionately to the holders of the June Debenture upon maturity;
- The Company covenants to use all reasonable commercial efforts to pay via the issuance of shares, any principal and interest owing on the February Debentures; and
- The Company and its subsidiaries covenant not to incur or become responsible for, directly or indirectly, any additional indebtedness that ranks in priority to the June Debentures.

The Company announced on 31 January 2014 that it had extended the June Debenture maturity date to 31 July 2014. As provided for under the amended indenture agreement the Company paid the debenture holders the C\$250,000 extension fee and had given first priority security to them on the Company's and its subsidiaries assets.

On 31 January 2014, the first tranche of the proposed C\$2.0 million private placement was completed raising C\$250,000.

On 19 February 2014, the Company announced that a second tranche of the proposed C\$2.0 million private placement had been completed. A total of \$C356,800 was raised.

The Company completed Tranche 3 of the private placement on 9 May 2014, raising C\$362,000 and Tranche 4 was completed on 19 June 2014 and raised C\$138,000.

All securities issued under each Tranche are subject to a four month statutory resale restriction.

On 17 June 2014, the Company sold a steam generator, that was under construction, to Canacol Energy Ltd for US\$133,876. In addition Canacol assumed the liability for the balance of the monies owing on the construction of US\$215,879 and US\$16,000 for storage fees. The Company received the sale proceeds on 3 July 2014.

#### *Maturity of February 2012 Convertible Debentures*

The Company elected on 31 December 2013 to satisfy its obligation to pay the principal and remaining interest to the holders of outstanding debentures issued on 10 February 2012 by issuing 24,529,905 common shares of the Company ("Shares"). The number of shares was calculated by dividing the amount of principal and interest due and payable for C\$0.1170 (being 95% of the volume weighted average price of the Shares on the TSX Venture Exchange for the 21 consecutive trading days ended on 23 December 2013).



#### *Share Consolidation*

The Company undertook a share consolidation through the conversion of every 25 existing shares into 1 (one) new share. Shareholders approved the consolidation at the Company's AGM held on 29 November 2013.

The consolidation came into effect on 19 December 2013 and saw the Company's share capital reduced to 20,573,699 shares.

#### *New ASX Ticker Code*

The Company was issued with a new ASX ticker code of "SXS" and began trading under that code on 27 December 2013.

#### *Director Resignation*

Mr Ryan Dunfield resigned as a Director of the Company on 22 July 2013. The Company wished Mr Dunfield the best in his future endeavours.

### **3 REMUNERATION REPORT - AUDITED**

#### **3.1 Directors and Executives**

The Directors and Executives at the date of this report were:

Frank Petruzzelli - Chairman	Charle Gamba – Director
Mark Elliott - Director	Jason Bednar – Director
William Satterfield – Director	Chris Ritchie – Company Secretary / CFO – appointed 01/03/2014

#### **3.2 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 and Executives of Solimar Energy Limited.

#### **3.3 Principles of Compensation**

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 Group, including directors of the Company and other executives.

Compensation levels for key management personnel and secretaries of the Company and relevant key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives.

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 segments' performance;
- The Group's performance including:
  - The Group'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 fixed compensation and short and long-term performance-based incentives.

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

### **3.3.1 Fixed compensation**

Fixed compensation consists of base compensation, which is calculated on a total cost basis as well as employer contributions to superannuation funds.

### **3.3.2 Performance-linked compensation**

The Company currently has no performance based remuneration built into any of its key management personnel's remuneration packages other than providing incentive options discussed in 3.3.3.

### **3.3.3 Short-term and Long-term incentives**

Incentive options have been issued to non-executive directors and certain key executives and consultants of the Company. The ability to exercise the options is conditional upon the future performance of the Company and its reflection in the share price.

### **3.3.4 Service contracts**

Chris Bowyer, the Company Secretary and Chief Financial Officer provides his services through MDB Business and Taxation Advisers, an accounting firm which charges Solimar a fixed monthly fee. There is no provision for a termination fee in the event of a change of control. Mr Bowyer resigned as of 28 February 2014.

Chris Ritchie was appointed as Company Secretary and Chief Financial Officer as from 1 March 2014 and provides his services through Trachris Holdings Pty Ltd. Mr Ritchie is paid on an hourly rate basis. There is no provision for a termination fee in the event of a change of control.

### **Non-Executive Directors**

Total compensation, excluding equity share based payments, for all non-executive Directors is not to exceed \$360,000 per year.

## **3.4 Directors and executive officers' remuneration (company and group)**

The following table sets out remuneration paid to directors and key executive personnel of the Company and the Group during the reporting period:

<i>Directors' remuneration – 2013/14</i>	<b>Salary and fees*</b>	<b>Cash bonus</b>	<b>Non monetary benefits</b>	<b>Equity share based payments shares</b>	<b>Equity share based payments options</b>	<b>Total</b>
Frank Petruzzelli	70,000	-	-	-	-	70,000
Mark Elliott	32,500	-	-	-	-	32,500
Charle Gamba	32,500	-	-	-	-	32,500
Jason Bednar	32,500	-	-	-	-	32,500
Will Satterfield	32,500	-	-	-	-	32,500
Ryan Dunfield (1)	1,959	-	-	-	-	1,959
<b>Total remuneration</b>	<b>201,959</b>	-	-	-	-	<b>201,959</b>

(1) Mr Dunfield resigned on 22 July 2013

**SOLIMAR ENERGY LIMITED**  
**DIRECTORS' REPORT**

<i>Directors' remuneration – 2012/13</i>	Salary and fees*	Cash bonus	Non monetary benefits	Equity share based payments shares	Equity share based payments options	Total
Frank Petruzzelli	72,089	-	-	-	16,200	88,289
Mark Elliott	35,438	-	-	-	16,200	51,638
Charle Gamba	35,438	-	-	-	16,200	51,638
Jason Bednar	35,438	-	-	-	16,200	51,638
Ryan Dunfield	29,740	-	-	-	40,500	70,240
John Begg	76,085	75,000	-	-	32,400	183,485
<b>Total remuneration</b>	<b>284,228</b>	<b>75,000</b>	-	-	<b>137,700</b>	<b>496,928</b>

<i>Executives' remuneration – 2013/14</i>	Cash salary and fees	Cash bonus	Non monetary benefits	Equity share based payments shares	Equity share based payments options	Total
Chris Bowyer – Company Secretary / Chief Financial Officer (CFO)** (1)	100,000	-	-	-	-	100,000
Chris Ritchie – Company Secretary / Chief Financial Officer (CFO) *** (2)	26,900	-	-	-	-	26,900
<b>Total remuneration</b>	<b>126,900</b>	-	-	-	-	<b>126,900</b>

(1) Mr Bowyer resigned 28 February 2014

(2) Mr Ritchie commenced 1 March 2014.

<i>Executives' remuneration – 2012/13</i>	Cash salary and fees	Cash bonus	Non monetary benefits	Equity share based payments shares	Equity share based payments options	Total
Will Satterfield –Chief Executive Officer (CEO)	216,125	10,324	-	-	107,362	333,811
Chris Bowyer – Company Secretary / Chief Financial Officer (CFO)**	150,000	40,000	-	-	6,806	196,806
<b>Total remuneration</b>	<b>366,125</b>	<b>50,324</b>	-	-	<b>114,168</b>	<b>530,617</b>

\* In the 2014 financial year the director fees shown have been accrued but as at the date of this report had not been paid.

In the 2013 financial year Frank Petruzzelli, Mark Elliott, Charle Gamba and Jason Bednar received their fees through the issue of shares at an equivalent value. Will Satterfield was an executive director.

\*\* The Cash Salary & Fees attributable to Chris Bowyer whilst Company Secretary / Chief Financial Officer is the amount (net of GST) invoiced by MDB Business and Taxation Advisers to the Company.

\*\*\* The Cash Salary and Fees paid to Chris Ritchie is the amount (net of GST) invoiced by Trachris Holdings Pty Ltd

There are no further Group or Company executives and hence no further executive remuneration has been disclosed.

### 3.5 Equity Instruments

#### 3.5.1 Options granted as compensation

During the period there were no options granted as compensation to executives and directors of the Company and Group.

In the previous period the following options were granted as compensation:

2012/13 Directors and Executives	No of Options granted during Year	Grant Date	No of Options vested and are exercisable during year ended 30 June 2013	% Remuneration consisting of Options	Fair value per Option at Grant Date (\$)	Exercise price per Option (\$)	Expiry Date
Frank Petruzzelli	1,000,000	21 Dec 12	1,000,000	18.35%	0.0162	CAD0.10	30 Nov 15
Will Satterfield	2,000,000	21 Dec 12	4,500,000	32.16%	0.0162	CAD0.10	30 Nov 15
Mark Elliott	1,000,000	21 Dec 12	1,000,000	31.37%	0.0162	CAD0.10	30 Nov 15
Charle Gamba	1,000,000	21 Dec 12	1,000,000	31.37%	0.0162	CAD0.10	30 Nov 15
Jason Bednar	1,000,000	21 Dec 12	1,000,000	31.37%	0.0162	CAD0.10	30 Nov 15
Ryan Dunfield	2,500,000	21 Dec 12	2,500,000	57.66%	0.0162	CAD0.10	30 Nov 15
John Begg	2,000,000	21 Dec 12	2,000,000	17.66%	0.0162	CAD0.10	30 Nov 15
Chris Bowyer	625,000	26 Feb 13	625,000	3.46%	0.0109	CAD0.10	30 Nov 15

Table reflects amounts prior to the Company's 25:1 consolidation during the 2014 year

Options were awarded in the 2012/13 financial year as compensation under service conditions. No performance conditions are attached to the options. The options were issued to incentivise individuals to remain with the Company and Group over a period of time as well as provide a reward for previous service. The Company believes that while there are no specific performance conditions attached to the options as the exercise price has been set above the current market price this will encourage those individuals to perform in order to derive value from them.

No terms of equity-settled share-based payment transactions have been altered or modified during the reporting period. During the period no options granted as compensation expired, were cancelled or unexercised.

During the reporting period no shares were issued on the exercise of options previously granted as compensation.

#### 3.5.2 Movement in Options & Warrants

2014 Directors/Executives	Held at 1 July 2013	Granted as Compensation	Exercised	Other Changes *	Held at 30 June 2014	Vested during Year	Vested & Exercisable at 30 June 2014
Frank Petruzzelli	220,000	-	-	74,800	294,800	74,800	294,800
Mark Elliott	200,000	-	-	62,400	262,400	62,400	262,400
Charle Gamba	247,778	-	-	66,667	314,445	66,667	314,445
Jason Bednar	220,000	-	-	-	220,000	-	220,000
Ryan Dunfield (1)	100,000	-	-	-	100,000	-	100,000
Will Satterfield	280,000	-	-	-	280,000	-	280,000
Chris Bowyer (1)	41,000	-	-	-	41,000	-	41,000
Chris Ritchie	-	-	-	-	-	-	-

\* Other Changes represent options issued as free attaching to shares issued under a private placement.

(1) Balance as of the date of their resignation

### 3.5.3 Movement in Shares

2014 Directors/Executives	Held at 1 July 2013	Purchases	Received on exercise of options	Issued in lieu of bonus	Issued in lieu of fees	Held at 30 June 2014
Frank Petruzzelli	387,168	74,880	-	-	542,980	1,005,028
Mark Elliott	377,446	62,400	-	-	267,457	707,303
Charle Gamba	94,848	66,667	-	-	267,457	428,972
Jason Bednar	43,349	-	-	-	267,457	310,806
Ryan Dunfield (1)	-	-	-	-	-	-
Will Satterfield	27,520	-	-	-	-	27,520
Chris Bowyer (1)	-	-	-	-	-	-
Chris Ritchie	-	-	-	-	-	-

(1) Balance as of the date of their resignation

### 3.5.4 Key indicators of Company Performance and Shareholder Performance

The table below summarises key indicators of the performance of the Company and relevant shareholder return over the past five financial years.

#### Key indicators of Company Performance and Shareholder Return

	2010	2011	2012	2013	2014
Sales (A\$)	421,382	507,843	403,456	240,410	64,414
Profit/(loss) (A\$)	(4,791,792)	(4,746,801)	(8,546,758)	(6,417,789)	(5,303,108)
Share Price at 30 June (A\$)	\$0.044	\$0.08	\$0.47	\$0.012	\$0.025
EPS – cents (A\$) *	(55.5)	(40.75)	(51.75)	(34.47)	(13.62)

\* EPS on previous periods has been adjusted for the 25:1 that occurred on 19 December 2013.

End of audited Remuneration Report.

## 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 oil in California.

## 5 RESULTS AND DIVIDENDS

The loss after tax attributable to members of the Group for the financial period ending 30 June 2014 was \$5,303,108 (2013: loss of \$6,417,789).

No dividends have been paid or declared by the Company during the period ended 30 June 2014 (2013: nil).

## 6 LOSS PER SHARE

The basic and diluted loss per share for the Group for the year was 13.62 cents per share (2013: 34.47 cents, on a post consolidation basis).

## 7 EVENTS SUBSEQUENT TO THE REPORTING PERIOD

### 7.1 Notice of default from debenture trustee

The Company received a Notice of Default from Computershare Trust Company of Canada on 24 July 2014, in its capacity as the Trustee (the "Trustee") under the Convertible Debenture Indenture dated 26 June 2012, providing for the issuance of convertible debentures by the Company (the "Debentures") regarding the failure to pay interest thereon when due. Under the notice of default the Trustee has requested the payment of the outstanding interest and principal owing on the Debentures, however, the Company is currently in negotiations with the holders of the June Debentures.

Additionally negotiations continue in regard to the possible purchase of the outstanding convertible debentures by a third party from debenture holders and if successful for the maturity-date of these debentures to be extended. The proposed transaction is currently undergoing due diligence and independent financial assessment. The acquisition of these convertible debentures may ultimately lead to the sale of the Company's working interest in the Kreyenhagen project.

## 7.2 Tejon Ranch project

In October 2014, North American Oil and Gas Corporation, the operator of the Tejon Ranch project informed the Company that it will no longer pay lease delay rentals. Should the Company not take over the lease delay rentals then its interest in the project will terminate. The Company is currently reviewing its options.

## 7.3 Suspension of Trading on ASX

The Company's listed securities were temporarily suspended from trading on the ASX from 1 October 2014 to the day after the issue of this report.

## 8 LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to pursue activities within its corporate objectives.

## 9 ENVIRONMENTAL REGULATION

The Company is subject to significant environmental regulation associated with its 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 and Executives in the shares and options of Solimar Energy Limited ("the Company") were:

2013/14 Directors and Executives	Ordinary shares	Warrants, exercisable at C\$1.25 / C\$2.50	Options, exercisable at C\$2.50	Options Exercisable at C\$3.19
Frank Petruzzelli	1,005,028	74,880	40,000	-
Will Satterfield	27,520	-	80,000	200,000
Mark Elliott	707,303	62,400	40,000	-
Charle Gamba	428,974	66,667	40,000	-
Jason Bednar	310,806	-	40,000	-
Chris Ritchie	-	-	-	-
<b>Total</b>	<b>2,479,631</b>	<b>203,947</b>	<b>240,000</b>	<b>200,000</b>

2012/13 Directors and Executives	Number of shares	Options/Warrants exercisable at C\$3.60	Options, exercisable at C\$4.50	Options, exercisable at C\$2.50	Options, exercisable at C\$3.19
Frank Petruzzelli	387,166	-	180,000	40,000	-
Will Satterfield	27,520	-	-	80,000	200,000
Mark Elliott	377,445	-	160,000	40,000	-
Charle Gamba	94,849	207,778	-	40,000	-
Jason Bednar	43,349	180,000	-	40,000	-
Ryan Dunfield (1)	-	-	-	100,000	-
John Begg	71,429	-	216,000	80,000	-
Chris Bowyer (1)	-	-	-	25,000	16,000
<b>Total</b>	<b>1,001,758</b>	<b>387,778</b>	<b>556,000</b>	<b>445,000</b>	<b>216,000</b>

(1) Balance as of the date of their resignation

## **11 SHARE OPTIONS**

### **11.1 Options granted to officers of the Company**

During or since the end of the financial year, there were no remuneration options granted. Mr Petruzzelli, Mr Elliott and Mr Gamba were granted 74,880, 62,400 and 66,667 respectively (on a post consolidation basis) free attaching warrants pursuant to a private placement on 5 December 2013. These warrants had an exercise price of between C\$1.25 and C\$2.50 and expire on 27 September 2015. The granting of these options was approved at the Company's AGM on 29 November 2013.

### **11.2 Unissued shares under options and warrants**

As at the date of the report, there were 800,000 unlisted options and 6,228,550 unlisted warrants on issue, detailed as follows:

Number of Options	Number of Warrants	Exercise Price	Expiry Date
120,000		A\$1.97	28 Feb 2015
	244,445	C\$3.75	4 Apr 2015
200,000		A\$3.1875	4 Jul 2016
	800,000	C\$3.00	31 Jul 2015
420,000		C\$2.50	30 Nov 2015
60,000		C\$2.50	30 Nov 2015
	1,333,335	C\$2.50	27 Sep 2015
	2,789,231	C\$0.065	9 May 2016
	1,061,539	C\$0.065	19 Jun 2016
800,000	6,228,550		

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

### **11.3 Shares issued on exercise of options or warrants**

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

## **12 INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

### **12.1 Indemnification**

An indemnity agreement has been entered into with the current Directors of the Company. Under the agreement, the Company has agreed to indemnify the directors 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. Total premiums paid for the current year was \$14,639.

## **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 Grant Thornton, the Company's auditor, has performed no other services (2013: Nil) in addition to their statutory duties.

**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 2014.

A handwritten signature in black ink, appearing to be 'J. Bednar', written over a faint circular stamp.

**Jason Bednar**

**Director**

Solimar Energy Limited

Calgary, Canada, 31<sup>st</sup> day of October 2014



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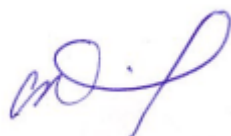
### **Auditor's Independence Declaration To the Directors of Solimar Energy Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Solimar Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



A. Nathanielsz  
Partner - Audit & Assurance

Melbourne, 31 October 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594  
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**SOLIMAR ENERGY LIMITED**  
**DIRECTORS' DECLARATION**

---

- 1 In the opinion of the directors of Solimar Energy Limited ("the Company"):
  - a. The financial statements and notes that are set out on pages 20 to 61 and the Remuneration Report in the Directors report, set out on pages 1 to 14, are in accordance with the Corporations Act 2001, including:
    - i. Giving a true and fair view of the financial position of the consolidated entity as at 30 June 2014 and of its performance for the financial 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(b);
  - 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 after taking into account the matters raised in Note 2(a); and
  - d. The remuneration disclosures contained in the remuneration report comply with section 300A of the Corporations Act 2001.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Acting Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2014.

Dated at Calgary, Canada, this 31st day of October 2014.

Signed in accordance with a resolution of the directors.



Jason Bednar  
**Director**  
Solimar Energy Limited

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## **Independent Auditor's Report To the Members of Solimar Energy Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Solimar Energy Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

### **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. Those standards require us to 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.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. 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.

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

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

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 consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Material uncertainty regarding going concern**

Without qualifying our opinion we draw attention to Note 2(a) in the consolidated financial statements which indicates that the consolidated entity incurred a net loss of \$5,303,108 during the year ended 30 June 2014, and as at that date the consolidated entity had a working capital deficiency of \$5,816,904, and its total liabilities exceeded total assets by \$1,835,536. Note 2(a) also indicates that to continue as a going concern, the consolidated entity is dependent upon obtaining necessary funds to meet its current obligations, fund ongoing contractual commitments under its various farm-in and lease agreements, and ultimately achieve profitable operations, which will likely only be achieved through successful completion of current negotiations with third parties to buyout the existing convertible debenture holders. These conditions along with other matters set forth in Note 2(a), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**Report on the remuneration report**

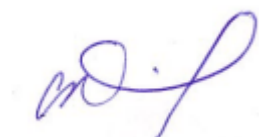
We have audited the remuneration report included in pages 7 to 11 of the directors' report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Solimar Energy Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



A. Nathanielsz  
Partner - Audit & Assurance

Melbourne, 31 October 2014

**SOLIMAR ENERGY LIMITED****CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
For the year ended 30 June 2014

		For the 12 Months ended	
		June 2014	June 2013
	Note	AUD	AUD
Revenue	7	64,473	245,214
Extraction costs		(42,871)	(145,911)
Professional fees	8	(676,166)	(1,125,711)
Personnel expenses	9	(493,541)	(1,190,516)
Impairment charges	14,15,16	(701,154)	(3,634,670)
Research and exploration expenditure		(89,898)	(251,296)
Depreciation and amortisation expenses	14,15,16	(104,482)	(127,964)
Other general and administrative expenses		(401,884)	(478,829)
Office rent		(105,001)	(128,922)
Finance costs		(1,377,500)	(1,502,513)
Gain on change in fair value of derivative		98,577	2,015,823
Unrealised FX (loss) / gain		143,520	(424,327)
Loan modification fees		(769,807)	-
Gain / (loss) on disposal of assets		(142,118)	331,833
Loss on re-estimation of cash flows on convertible debentures		(705,256)	-
<b>Results from operating activities</b>		<b>(5,303,108)</b>	<b>(6,417,789)</b>
<b>Loss before income tax</b>		<b>(5,303,108)</b>	<b>(6,417,789)</b>
Income tax benefit / (expense)	10	-	-
<b>Loss for the year attributable to equity holders of Solimar Energy Ltd</b>		<b>(5,303,108)</b>	<b>(6,417,789)</b>
<b>Other comprehensive income / (loss)</b>			
<i>Items that may be classified to profit or loss</i>			
Foreign currency translation differences		(88,093)	861,015
<b>Total comprehensive income / (loss)</b>		<b>(5,391,201)</b>	<b>(5,556,774)</b>
<b>Loss per share attributable to the ordinary equity holders of the Company:</b>			
Basic loss per share for the period			
(cents per share)	11	(13.62)	(34.47)
Diluted loss per share for the period			
(cents per share)	11	(13.62)	(34.47)

*The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 24 to 61.*

**SOLIMAR ENERGY LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 30 June 2014

<i>Consolidated</i> <i>For the period ended 30 June 2014</i>	<i>Note</i>	<b>Issued capital</b> <b>AUD</b>	<b>Accumulated</b> <b>losses</b> <b>AUD</b>	<b>Reserves</b> <b>AUD</b>	<b>Total</b> <b>equity</b> <b>AUD</b>
<b>Balance at 1 July 2013</b>		35,496,124	(40,183,599)	3,045,604	(1,641,871)
<i>Transactions with owners in their capacity as owners</i>					
Equity settled share based payment transactions		-	-	-	-
Share issues net of costs		5,197,536	-	-	5,197,536
		5,197,536	-	-	5,197,536
<i>Total comprehensive income</i>					
Net loss for the period		-	(5,303,108)	-	(5,303,108)
Foreign currency translation difference		-	-	(88,093)	(88,093)
		-	(5,303,108)	(88,093)	(5,391,201)
<b>Balance at 30 June 2014</b>		40,693,660	(45,486,707)	2,957,511	(1,835,536)
<i>Consolidated</i> <i>For the period ended 30 June 2013</i>					
<b>Balance at 1 July 2012</b>		35,091,823	(33,765,810)	1,922,112	3,248,125
<i>Transactions with owners in their capacity as owners</i>					
Equity settled share based payment transactions		-	-	262,477	262,477
Share issues net of cost		404,301	-	-	404,301
		404,301	-	262,477	666,778
<i>Total comprehensive income</i>					
Net loss for the period		-	(6,417,789)	-	(6,417,789)
Foreign currency translation difference		-	-	861,015	861,015
		-	(6,417,789)	861,015	(5,556,774)
<b>Balance at 30 June 2013</b>		35,496,124	(40,183,599)	3,045,604	(1,641,871)

*The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 24 to 61.*

**SOLIMAR ENERGY LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2014

		Consolidated	
		June 2014	June 2013
	Note	AUD	AUD
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	12	144,453	152,040
Trade and other receivables	13	209,427	180,335
<b>TOTAL CURRENT ASSETS</b>		<b>353,880</b>	<b>332,375</b>
<b>NON - CURRENT ASSETS</b>			
Receivables	13	371,787	377,545
Plant & equipment	14	51,799	298,194
Exploration and evaluation expenditure	15	4,010,543	5,069,477
Development assets	16	-	-
<b>TOTAL NON - CURRENT ASSETS</b>		<b>4,434,129</b>	<b>5,745,216</b>
<b>TOTAL ASSETS</b>		<b>4,788,009</b>	<b>6,077,591</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	1,480,707	973,320
Provision	18	371,550	377,359
Derivative liability	19a	-	720
Borrowings	19b	4,318,527	2,518,142
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,170,784</b>	<b>3,869,541</b>
<b>NON - CURRENT LIABILITIES</b>			
Provision	18	452,761	356,905
Derivative liability	19a	-	77,781
Borrowings	19b	-	3,415,235
<b>TOTAL NON - CURRENT LIABILITIES</b>		<b>452,761</b>	<b>3,849,921</b>
<b>TOTAL LIABILITIES</b>		<b>6,623,545</b>	<b>7,719,462</b>
<b>NET DEFICIENCY</b>		<b>(1,835,536)</b>	<b>(1,641,871)</b>
<b>EQUITY</b>			
Contributed equity	20	40,693,660	35,496,124
Reserves	21	2,957,511	3,045,604
Accumulated losses	22	(45,486,707)	(40,183,599)
<b>TOTAL EQUITY</b>		<b>(1,835,536)</b>	<b>(1,641,871)</b>

*The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 24 to 61.*



**SOLIMAR ENERGY LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 30 June 2014

		For the 12 months ended	
		Jun 2014	Jun 2013
	Note	AUD	AUD
<b>Cash flows from operating activities</b>			
Receipts from customers		83,920	267,638
Payments to suppliers and employees		(1,359,953)	(3,701,520)
Interest received		4	4,730
Interest paid		(236,210)	(177,521)
<b>Net cash flows used in operating activities</b>	26	<b>(1,512,239)</b>	<b>(3,606,673)</b>
<b>Cash flows from investing activities</b>			
Payments for exploration and evaluation		(6,534)	(777,915)
Payments for plant and equipment		(79,197)	(172,538)
Proceeds from sale of plant and equipment		-	21,500
Proceeds from sale of steam generator		276,457	544,541
<b>Net cash flows (used in) / from investing activities</b>		<b>190,726</b>	<b>(384,412)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		1,629,578	-
Proceeds from convertible debenture		-	3,800,114
Convertible debenture extension fee		(248,756)	-
Share issue costs		(73,626)	(9,608)
<b>Net cash flows from financing activities</b>		<b>1,307,196</b>	<b>3,790,506</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(14,317)</b>	<b>(200,579)</b>
Cash and cash equivalents at beginning of period		152,040	303,077
Effect of exchange rate fluctuations on cash held		6,730	49,542
<b>Closing cash and cash equivalents</b>		<b>144,453</b>	<b>152,040</b>

*The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 24 to 61.*

**1. Reporting Entity**

Solimar Energy Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 566 Elizabeth Street, Melbourne Vic 3000. The consolidated financial statements of the Company as at and for the year ended 30 June 2014 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) Going Concern**

At 30 June 2014 the Company had a working capital deficit of \$5,816,904 (2013:\$3,537,166), a deficiency in net assets of \$1,835,536 (2013:\$1,641,871) and incurred a loss of \$5,303,108 (2013: \$6,417,789) for the financial year. The existing convertible debenture liabilities of \$4,318,527 plus accrued interest and fees of \$563,455 were due to be repaid under the extended facility agreement on 31 July 2014, however the Company has been unable to settle these amounts subsequent to balance date, and has not yet received any forbearance from the holders. There is therefore considerable risk that the Company's existing creditors will cease to provide their ongoing support.

The Company is currently negotiating with third parties to buyout the existing convertible debenture holders, and if successful for the maturity date of these debentures to be extended. If a deal completes, it is expected that the Company may seek to realise the value in the Company's core asset, through the sale of the Kreyenhagen project.

If the directors cannot conclude a deal in the near term, it will likely be forced into creditor protection or liquidation. Negotiations have been continuing for a number of weeks, the negotiating parties have given indications that they would like to continue to pursue the transaction and as such the directors have concluded there is a reasonable expectation of the Company continuing as a going concern.

As such, the financial report has been prepared on a going concern basis, which presumes the realisation of assets and discharge of liabilities in the normal course of business for the foreseeable future. However, the existing working capital and overall net asset deficiency and default under the convertible debenture agreements creates a material uncertainty that casts a significant doubt about the Company's ability to operate as a going concern. The Company's ability to continue as a going concern is dependent upon obtaining necessary funds to meet its current obligations, fund ongoing contractual commitments under its various farm-in and lease agreements, and ultimately achieve profitable operations, which will realistically be achieved through completion of the current negotiations noted above to a successful outcome. While the Company is expending its best efforts, the success of negotiations and the raising of the necessary funds is not assured. This financial report does not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

**(b) Statement of Compliance**

The financial report is a general purpose financial report which has been prepared for a for-profit entity in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). Limited financial information for Solimar Energy Limited as an individual entity is included in Note 30.

The financial statements were approved by the Board of Directors on 31 October 2014.

**(c) Basis of Measurement**

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

- Derivative financial liabilities are measured at fair value

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

**(d) 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 is the currency of the primary economic environment in which each of the entities operate.

**(e) Significant accounting judgements, estimates and assumptions**

***(i) Significant accounting judgements***

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Capitalised exploration and development costs*

Exploration costs are only capitalised when it can be demonstrated that the Company has rights to an area of interest and the expenditures are either expected to be recouped with future development of the project or a determination cannot yet be made until further work is undertaken.

Development costs are only capitalised when it can be demonstrated that the technical feasibility of recovering the hydrocarbons is valid and that the asset will be available for use or sale.

*Impairment of capitalised exploration and development costs*

The future recoverability of capitalised exploration and development costs is dependent on a number of factors. These include the likelihood that the Company will pursue exploration at a particular project, the estimated level of resources, future technological changes which could impact on the cost of exploration and development, commodity price changes and legal and environmental changes.

To the extent that capitalised exploration and development costs are determined not to be recoverable in the future, net assets will be reduced in the period in which this determination is made, and written-off to profit or loss.

***(ii) Significant accounting estimates and assumptions***

The carrying amounts of certain assets and liabilities can often be determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Impairment of capitalised exploration and development costs*

Exploration and development costs are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- estimates of the quantities of reserves for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future costs of production and capital expenditure.

Management have determined that during the course of the year there were indicators of impairment and have estimated the recoverable amount of the related assets. Refer to notes 4, 14, 15 and 16.

*Fair value of share options and embedded derivatives*

The Company uses valuation techniques to estimate the value of share options, share warrants and convertible notes issued.

In determining the value of share warrants associated with the raising of capital and convertible notes the Company has relied on independent valuations which use a binomial option pricing model ("model"). There are numerous inputs in the model some of which rely on estimates of future behaviour. Inputs in this category would include:

- Volatility of the Company's share price
- Volatility of the AUD / CAD exchange rate
- The correlation between the AUD / CAD exchange rate and the Company's share price
- The expected life of the instrument

The Company uses the Black-Scholes option pricing model to value share options issued to directors, consultants and personnel. The assumptions used in arriving at a value include whether there is a possibility of early exercise and applying a discount to reflect the non-tradability of the share option. There were no remuneration options issued to directors, consultants and personnel during the current period.

Management and directors believe that the chosen valuation methods, assumptions and estimates are appropriate in determining the fair value of the financial instruments.

### **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**

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2014 (the "Consolidated Entity"). The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Investments in subsidiaries held by Solimar Energy Ltd are accounted for at cost less impairment charges in the parent entity information in Note 30. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment.

Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist,

to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

## **(b) Foreign currency**

### ***(i) Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. 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 retranslated to the functional currency at the exchange rate at the date 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 acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income 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 in the foreign currency translation reserve (FCTR) in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

## **(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 at 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 costs is discussed in note 3(n).

*Financial assets and liabilities at fair value through profit or loss*

An instrument is classified as 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.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**(ii) Share Capital**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(d) Plant and equipment**

**(i) Recognition and measurement**

Items of plant and equipment are stated at cost less accumulated depreciation (see below) and any accumulated impairment losses (see accounting policy 3(i)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the estimated costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

With the exception of freehold land and mining property and development assets, depreciation is charged to the profit or loss 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 and evaluation expenditure**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets (intangible assets) on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in profit or loss. Exploration and evaluation expenditure on joint operations are only capitalised if the Company has incurred the costs. Costs incurred by the joint operations partners are not capitalised on the Company's statement of financial position..

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(i)). 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 units are not 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.

**(f) Development Assets**

Development assets are those costs that are associated with an area of interest that has demonstrated technical feasibility and commercial viability in the extraction of hydrocarbons. These costs include those associated with construction, installation or completion of infrastructure facilities, transferred exploration and evaluation costs and development wells.

Development assets are written off over their expected useful economic life. When there are reliable reserve numbers the amortisation of development assets is determined on a "units of production" basis based on the production of the well in barrels of oil equivalent relative to the total reserve.

**(g) Trade and other receivables**

Trade and other receivables are recorded at amortised cost less any allowance for doubtful debts.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short term bills and at 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.

**(i) Impairment**

***(i) Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

***(ii) Non-financial assets***

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in 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 units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

**(j) Professional Fees - Consulting**

***Share based payments***

The fair value of options granted under the individual agreements with consultants are recognised as part of consultant expenses with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the consultants become unconditionally entitled to the options. Fair value is determined under the Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Solimar Energy Limited ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the consultants having to provide services to the company until vesting date. No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

**(k) Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, 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.

***Site restoration***

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration is recognised when there is sufficient certainty of an obligation to restore a site to a state it existed in prior to exploration and any subsequent activity.

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 resource. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

**(l) Trade and other payables**

Trade and other payables are non-interest bearing liabilities stated at amortised cost.

**(m) Revenue**

***Sales***

Revenue from sales is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of oil, transfer usually occurs at the point that the product is delivered to the relevant carrier. With sales of gas, transfer occurs at a predetermined delivery point along the pipeline.

**(n) Finance costs**

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

**(o) Project participation fee**

Income is derived from time to time from fees paid to the Group by other parties in exchange for their participation in a project the Group introduced to them.

**(p) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

**(q) 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.

**(r) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating

resources and assessing performance of the operating segments, has been identified as the Board of Directors.

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

**(s) 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 Australian Taxation Office is included as a current asset or liability in the statement of financial position.

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 Australian Taxation Office classified as operating cash flows.

**(t) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

**(u) New standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013.

- AASB 10 Consolidated Financial Statements; and
- AASB 13 Fair Value Measurement; and
- Amendment to AASB119 Employee Benefits

The effects of applying these standards are described below:

*AASB 10 Consolidated Financial Statements*

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements and Interpretation 112 Consolidation – Special Purpose Entities. AASB 10 revises the definition of control and provides extension new guidance on its application. These new requirements have the potential to affect which of the Company's investees are considered to be subsidiaries and therefore change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Company's investees held during the period or comparative periods covered by these financial statements.

#### *AASB 13 Fair Value Measurement*

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances.

AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application.

#### *Amendments to AASB 119 Employee Benefits*

The 2011 amendments to AASB 119 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- Eliminate the 'corridor method' and requires the recognition of re-measurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- Change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit or liability; and
- Enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

Under the amendments, employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under the superseded version of AASB 119) within 12 months after the end of the reporting period are short-term benefits, and are therefore not discounted when calculating leave liabilities. Annual leave expected to be settled in more than one year from the end of the reporting period, is now included in 'other long-term benefit' and discounted when calculating the leave liability. The Company expects all annual leave for all employees to be used wholly within 12 month of the end of the reporting period. Therefore the application of the revised AASB 119 has had no impact on the Financial Statements.

#### **New accounting standards for application in future periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations most relevant to the consolidated entity are set out below:

*AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9.*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phase 1 of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value.

The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Consolidated Entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Company.

*AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles)*

Part A of AASB-2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

Among other improvements, the amendments arising from Annual Improvements to AFRSs 2010-2012 Cycle:

- Clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and
- Amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying aggregation criteria.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 149 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination. When these amendments are first adopted by the Consolidated Entity for the year ending 30 June 2015, there will be no material impact on the entity.

*AASB 2014-1 Amendments to Australian Accounting Standards (Part E: Financial instruments)*

Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial instrument to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction Chapter 6 Hedge Accounting into AASB9 and to amend reduced disclosure requirements for AASB 7 Financial Instruments; Disclosures and AASB 101 Presentation of Financial Statements. The Consolidated Entity will adopt this standard for the year ending 30 June 2015 but the impact of its adoption is yet to be assessed by the entity.

*Clarification of Acceptable Methods of Depreciation and Amortisation (AASB 116 & AASB 138)*

The amendments to IAS 16 prohibit the use of a revenue-based depreciation amortisation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to IAS 38 present a rebuttable presumption that revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two limited circumstances:

- The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged) ; or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly. When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transaction and balances recognised in the financial statements.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15:

- Replaces IAS 18 revenue, IAS 11 Construction Contracts and some revenue-related interpretations
- Established a new control-based revenue recognition model
- Changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- Provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- Expands and improves disclosures about revenue

In the Australian context, the Australian Accounting Standards Board (ASB) is expected to issue the equivalent Australian (AASB 15 Revenue from Contracts with Customers), along with a new Exposure Draft (ED) on income from transactions of Not-for-Profit (NFP) entities by December 2014. When this standard is first adopted for the year ending 30 June 2018, there will be no material impact on the transactions and balances recognised in the financial statements.

**4. Determination of fair values**

A number of the 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.

**Intangible assets**

The fair value of intangible assets (other than patents and trademarks) is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**Share-based payment transactions**

The fair value of options is measured using the Black-Scholes option pricing 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. Financial risk management**

### **Overview**

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report and in particular Note 23.

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

Risk management policies identify and analyse the risks faced by the Group and set appropriate risk limits and controls as well as monitor risks and adherence to limits. Risk management policies and systems are reviewed from time to time to reflect changes in market conditions and the Group's activities.

The Group aim to develop a disciplined and constructive control environment in which all contractors and employees understand their roles and obligations.

### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and joint venture partners on those projects the Group acts as operator.

#### *Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each joint venture partner and customer. Where the Group acts as operator on a project its policy in respect of joint venture partners is to only deal with those it considers are credit-worthy parties. Joint venture partners are required to provide evidence of their ability to advance the funds necessary prior to the Group making commitments on their behalf. The Group also maintains continual communication with its joint venture partners to ensure that if any issues arise in respect of funding they could be dealt with on a timely basis.

The produced oil is sold to only one customer. This customer has a well-established business reputation.

#### *Investments*

The Group limits its exposure to credit risk by only having surplus funds invested with established banking institutions. Given that the funds are held with these banking institutions the Group does not expect these counterparties to fail to meet their obligations.

### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group recognises at the current time that it has a significant short term liability in the form of its convertible debentures which matured on 31 July 2014. Their maturity under current circumstances represents a liquidity risk which the Group is looking to manage through the review of potential capital raising initiatives which would allow these debentures to be satisfied or the maturity extended.

The Group maintains a budget that allows it to monitor the cash flow requirements on the various projects it is undertaking or planning to undertake. The Group is also conscious of not committing itself to any projects or other activities unless its level of funds forecast as available exceeds the anticipated expenditure.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Currency risk*

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the Australian dollar (AUD), but also the US dollar (USD). The currencies in which these transactions are primarily denominated in are AUD, USD and CAD.

The Group's currency exposure resides with the movements between the AUD, USD and CAD. The policy is not to hedge for these movements as the Group operates in the currencies' environments throughout the year and also maintains cash balances in all currencies.

Certain of the Group's financial instruments are exposed to fluctuations in the U.S. dollar and Canadian dollar, including cash and cash equivalents, loans and receivables, and trade and other payables. The Group also has an exposure to the Canadian dollar with the derivative liability it has recognised representing its exposure to warrants and the convertible debentures that are denominated in Canadian dollars.

*Interest rate risk*

The Group is exposed to interest rate risk through the interest it is required to pay quarterly in arrears on its convertible debenture and the interest income it can earn on its surplus cash holdings. The Group manages its exposure to this interest rate risk through having secured a fixed rate of interest on the convertible debenture and in particular circumstances the ability to make quarterly interest payments through issuing shares.. The Group also manages surplus funds by maintaining an account within the bank where funds not immediately required can be placed to generate interest and if appropriate place any available funds into longer term deposit accounts to secure higher rates of interest.

*Other market price risk*

The Group has no investments in equity securities.

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

As part of their management of capital the Board reviews on a regular basis the budgeted and forecasted revenues and expenditures of the Group in consultation with management. The review assists the Board in managing the Group's capital on an ongoing basis and ensuring their decisions on the allocation of capital are in step with the Group's operational and investment requirements. There were no changes in the Group's approach to capital management during the year.



## 6. Segment information

The group has one operating business, being the evaluation and development of onshore oil and gas prospects and production of gas in California. The financial information reviewed by the board of directors is only prepared on a consolidated basis and no discrete financial information is available. Hence there are no operating segments and no segment information is presented.

### *Products and services*

Revenues from external customers for each group of similar products and services is as follows:

<b>2014</b>	<b>Oil</b>	<b>Gas</b>	<b>Other *</b>	<b>Total</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
Revenues from external customers	13,250	-	51,223	64,473

<b>2013</b>	<b>Oil</b>	<b>Gas</b>	<b>Other *</b>	<b>Total</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
Revenues from external customers	231,178	-	14,036	245,214

\* Other includes fees charged for operating projects and interest revenue

### *Geographical information*

Revenues and non-current assets by geographical location is as follows:

<b>Geographic location</b>	<b>Revenues from external customers</b>		<b>Non-current assets*</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
Australia	4	4,728	3,268	5,231
United States	64,469	240,486	4,430,861	5,739,985
	64,473	245,214	4,434,129	5,745,216

\* Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

### *Major Customers*

The Group only has one customer for the sale of its oil.

## 7. Revenue

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>
Sales revenue	64,414	240,410
Interest revenue	59	4,804
	64,473	245,214

**8. Professional fees**

	Consolidated	
	2014	2013
	AUD	AUD
<b>(a) Auditor's fees</b>		
<b>Auditors of the company</b>		
<i>Audit and review of financial statements</i>		
Grant Thornton (i)	76,713	150,009
Total auditor's fees recognised as expense in profit or loss	76,713	150,009
<b>(b) Other professional fees</b>		
Consulting fees (ii) (iv)	130,336	194,505
Other professional fees (iii)	469,117	781,197
	599,453	975,702
	676,166	1,125,711

- (i) The audit fees incurred for the 2013 financial year include \$63,009 of fees that related to the 2012 financial year audit.
- (ii) There were no share based payments included within other professional fees in 2014, (2013:\$6,806)
- (iii) Consulting fees relate to fees paid to US and Australian consultants.
- (iv) Other professional fees includes accounting and corporate secretarial services, legal fees and in 2013 the underwriting fee associated with the June 2012 Convertible Debenture.

**9. Personnel expenses**

	Consolidated	
	2014	2013
	AUD	AUD
Directors fees (i)	201,959	333,032
Wages and salaries (ii)	261,386	857,484
	463,345	1,190,516

- (i) Director Fees relate to fees and any share based remuneration paid to the non-executive directors. Total share based remuneration included within Director Fees was \$Nil (2013: \$105,300) which was the valuation of the options per Black-Scholes issued to the non-executive Directors that was approved at the AGM in November 2012. None of the director fees accrued in the 2014 financial year have been paid.
- (ii) Total share based remuneration included in Wages and Salaries was \$Nil (2013:\$150,370)

**10. Income tax expense**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>
<b>Current tax expense</b>		
Current year	-	-
Adjustments for prior years	-	-
	-	-
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	-	-
	-	-
Total income tax expense in income statement	-	-
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>		
Profit / (loss) before tax - continuing operations	(5,303,108)	(6,417,789)
Profit / (loss) before tax	(5,303,108)	(6,417,789)
Income tax using the domestic corporation tax rate of 30% (2013: 30%)	(1,590,932)	(1,925,337)
<i>Increase in income tax expense due to:</i>		
Share based payments	-	78,743
Legal and Consulting	64,828	54,650
Other	426,733	(76,607)
Current year losses for which no deferred tax asset was recognised	1,099,371	1,868,551
Income tax expense on pre-tax net profit	-	-
<i>Net deferred tax assets</i>		
Capitalised exploration costs	(1,137,597)	(1,251,788)
Other	(1,235,885)	(649,586)
Total	(2,373,482)	(1,901,374)
<i>Deferred tax assets</i>		
Revenue losses available for offset against future taxable income	10,958,093	9,996,885
Offset of assessable temporary differences	(2,373,482)	(1,901,374)
Net tax losses available for offset against future taxable income	8,584,611	8,095,511
Gross tax losses available for offset		
Net deferred tax assets recognised	-	-

**10. Income Tax Expense (continued)**

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised as follows:

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>
Tax losses not recognised	10,958,093	9,996,885
Net deductible temporary differences	(2,373,482)	(1,901,374)
	<b>8,584,611</b>	<b>8,095,511</b>

Potential tax benefit at 30% for the Group of \$8,584,611 (2013:\$8,095,511) have not been recognised as it is not probable that future profits will be available against which the benefit can be utilised. The deductible temporary differences and tax losses do not expire under current tax legislation.

**Income tax recognised directly in equity**

The effect of income tax recognised directly in equity for the Group is nil (2013:nil).

## 11. Earnings per share

### Basic loss per share

The calculation of basic earnings per share at 30 June 2014 was based on the loss attributable to ordinary shareholders of \$5,303,108 (2013:\$6,417,789) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2014 of 38,925,708 (2013:18,616,278) calculated as follows:

### Loss attributable to ordinary shareholders

	Consolidated	
	2014 AUD	2013 AUD
Loss for the period	( 5,303,108)	( 6,417,789)
Loss attributable to ordinary shareholders	( 5,303,108)	( 6,417,789)

### Weighted average number of ordinary shares

	Consolidated	
	2014 Number	2013 Number
Weighted average number of ordinary shares for prior period	18,616,278	16,481,560
Effect of shares issued during the period	20,309,430	2,134,718
Weighted average number of ordinary shares at 30 June	38,925,708	18,616,278

The Weighted average number of ordinary shares for the 2013 year has been adjusted to reflect the 25:1 share consolidation that occurred in December 2013.

### Basic loss per share

	Consolidated	
	2014 AUD	2013 AUD
Basic loss per share (cents per share)	(13.62)	(34.47)

The Basic loss per share for the 2013 year has been adjusted to reflect the 25:1 share consolidation that occurred in December 2013.

### Diluted earnings per share

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.

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

	Consolidated	
	2014 AUD	2013 AUD
Options	2,044,000	2,044,000
Warrants	7,881,867	3,257,762
Convertible Debenture	1,600,000	2,720,000
	11,525,867	8,021,762

**12. Cash and cash equivalents**

	Consolidated	
	2014	2013
	AUD	AUD
Cash at bank and on hand held in AUD	1,535	18,418
Cash at bank and on hand held in USD	142,918	133,394
Cash at bank and on hand held in CAD	-	228
Cash and cash equivalents in the statement of cash flows	144,453	152,040

**13. Trade and other receivables**

	Consolidated	
	2014	2013
	AUD	AUD
<b>Current</b>		
Other receivables	161,458	94,739
Prepayments	47,969	85,596
	209,427	180,335
<b>Non-current</b>		
Other receivables	371,787	377,545
	371,787	377,545

Other receivables under non-current assets relate to the operator bond paid to the Department of Oil and Gas and funds held in escrow by the Kreyenhagen leaseholders in respect of future restoration costs.

**14. Plant and equipment**

	Consolidated	
	Jun 2014	Jun 2013
	AUD	AUD
a) Plant & equipment at cost	232,781	445,373
Less: accumulated depreciation	(180,982)	(147,179)
	<u>51,799</u>	<u>298,194</u>
<b>b) Reconciliation of movement in plant and equipment</b>		
	Financial Year ended Jun 14	Financial Year ended Jun 13
Balance at the beginning of the Period	298,194	229,159
Additions	79,197	96,275
Disposal of Assets	(284,236)	(22,911)
Depreciation	(32,551)	(33,614)
Impairment	-	(12,119)
Impact of FX movements	(8,805)	41,404
Balance at the end of the Period	<u>51,799</u>	<u>298,194</u>
<b>Carrying Amounts</b>		
Balance at the beginning of the Period	298,194	229,159
Balance at the end of the Period	<u>51,799</u>	<u>298,194</u>

The impairment charge in 2013 related to the write down of materials the Company had on hand. A review of these was done at the financial year end and the impairment charge reflects the Company's estimate of the value of materials that have been used and no longer on hand.

**15. Exploration and evaluation expenditure**

	Consolidated	
	Jun 2014	Jun 2013
	AUD	AUD
a) Exploration expenditure	4,010,543	5,069,477
	<u>4,010,543</u>	<u>5,069,477</u>
<b>b) Reconciliation of movement in exploration expenditure</b>		
	Financial Year ended Jun 14	Financial Year ended Jun 13
Balance at the beginning of the period	5,069,477	7,285,058
Additions	66,180	872,358
Farmin payment credited	-	(539,084)
Amortisation	(71,932)	(47,504)
Impairment	(701,154)	(3,330,136)
Sale of Interests	(276,457)	-
Impact of FX movements	(75,571)	828,785
Balance at the end of the period	<u>4,010,543</u>	<u>5,069,477</u>
<b>Carrying amounts</b>		
Balance at the beginning of the period	5,069,477	7,285,058
Balance at the end of the period	<u>4,010,543</u>	<u>5,069,477</u>

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. During the course of the financial year \$701,154 in exploration expenditure was considered impaired. This amount is comprised of \$240,612 impairment of seismic at South East Lost Hills, \$115,425 impairment at Jacilitos and \$345,117 impairment at Bayswater. In 2013 a total of \$3,330,136 was impaired of which \$3,313,321 related to the Paloma project.

Exploration and Evaluation impairment losses are included in impairment charges in the statement of profit or loss and other comprehensive income.

## 16. Development assets

	Consolidated	
	Jun 2014	Jun 2013
	AUD	AUD
a) Development assets	-	-
	-	-
b) Reconciliation of movement in development assets		
	Financial Year ended Jun 14	Financial Year ended Jun 13
Balance at the beginning of the period	-	734,714
Additions	-	39,300
Amortisation	-	(46,845)
Impairment	-	(292,415)
Disposal of Asset	-	(447,845)
Impact of FX movements	-	13,091
Balance at the end of the period	-	-
Carrying amounts		
Balance at the beginning of the period	-	734,714
Balance at the end of the period	-	-

The Company decided in the 2013 financial year to not renew the lease at Southeast Lost Hills and fully wrote off the remaining capitalised value of the project of \$292,415.

The Maricopa asset was sold in the previous financial year and the amount of \$447,845 credited against Development Assets represented its carrying value at the time of sale with a gain of \$333,833. Furthermore a total of \$235,661 was released from restoration and other provisions relating to the Maricopa asset.

## 17. Trade and other payables

	Consolidated	
	Jun 2014	Jun 2013
	AUD	AUD
Trade payables	585,453	404,885
Other payables and accrued expenses	895,254	568,435
	1,480,707	973,320

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

Other payables and accrued expenses includes unpaid director fees, the June-quarter interest on the convertible notes and audit fees.



**18. Provision**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>
<b>Provision for restoration</b>		
<b>Current</b>		
Balance at the commencement of the period	377,359	-
Reclassified from non-current	-	303,482
Provision made during the period	-	39,300
Accretion of provision	-	4,100
Impact of FX translation	(5,809)	30,477
Balance	<u>371,550</u>	<u>377,359</u>
<b>Non - current</b>		
Balance at the commencement of the period	356,905	731,862
Reclassified to current	-	(303,482)
Provision made during the period	50,403	-
Accretion of provision	52,849	43,933
Provision reversed during the period	-	(143,059)
Impact of FX translation	(7,396)	27,651
Balance	<u>452,761</u>	<u>356,905</u>

The provision for restoration represents an estimate of the expected costs the Group will need to incur to restore its projects at Southeast Lost Hills and Kreyenhagen. The timing of the costs attributable to Kreyenhagen are uncertain as the obligation to restore the properties only falls at the time the Group decides to no longer continue production or exploration activity on the particular property. The balance of the provision classified under current liabilities relates to Southeast Lost Hills as this project has been discontinued and therefore the timing of the obligation to restore the property is expected within the next twelve months.

**19a. Derivative liability**

The derivative liability represents the value of the derivative component of the warrants that were issued in November 2011, the warrants and convertible debentures issued in February 2012 and July 2012 and the warrants issued in April 2012. The warrants are exercisable in a foreign currency (Canadian Dollars) and therefore the Company has a foreign exchange risk. The convertible debentures can also be satisfied through the issue of shares denominated in a foreign currency providing the Company with a foreign exchange risk. For this reason there is recognition of a derivative liability in the financial statements that relates to both the share price and foreign currency. Under the accounting standards the liability will also be required to be re-valued at each report date. The derivative liability shown under current liabilities in 2013 represents the derivative component associated with the convertible debentures issued in February 2012 and which matured on December 31, 2013 and the warrants which expire in February 2014.

The fair value gain of the derivative liabilities in the year ended 30 June 2014 was \$98,577 (2013: \$2,015,823).

**SOLIMAR ENERGY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 30 June 2014, no material derivative liability exists. The Company obtained an independent valuation of the liability as at 30 June 2014.

<b>Derivatives</b>	<b>2014</b>	<b>2013</b>
Convertible Debenture (Issued February 2012) (Maturing Dec 31, 2013)	-	576
Warrants (Issued February 2012) (Expiring Feb 10, 2014)	-	144
Warrants (Issued November 2011) (Expiring Oct 5, 2014)	-	6,515
Warrants (Issued November 2011) (Expiring Oct 5, 2014)	-	4,564
Convertible Debenture (Issued June 2012) (Maturing Jan 31, 2014)	-	34,643
Warrants (Issued April 2012) (Expiring Apr 4, 2015)	-	4,221
Warrants (Issued July 2012) (Expiring Jul 31, 2015)	-	27,838
Warrants (Issued September 2013) (Expiring Sept 27, 2015)	-	-
	<u>-</u>	<u>78,501</u>

**19b. Borrowings**

Borrowings represent the non-derivative value of the convertible debentures issued in February 2012 and June 2012.

At the time of issue the convertible debentures were valued and treated as having both a derivative and non-derivative component. The non-derivative component is included under Borrowings. As the convertible debentures are also denominated in Canadian dollars they are required at the end of each quarter to be translated into Australian dollars at the closing rate.

Classified under current liabilities in 2013 are the C\$2.8 million of convertible debentures issued in February 2012. These are denominated in Canadian dollars, have a 10% coupon rate and mature on 31 December 2013. On maturity the convertible debentures are at the election of the Company convertible into shares at 95% of the volume weighted average trading price of the shares on the TSX Venture Exchange (TSXV) for the 21 consecutive trading days ending 5 trading days preceding maturity. Under TSXV rules a Company is unable to issue shares below CAD\$0.05 and therefore were the share price as calculated for conversion to be below that price the Company would not be able to satisfy the convertible debentures by issuing shares and would need to repay in cash. Interest is payable quarterly in arrears and can be paid either in shares or cash at the option of the Company.

Classified under non-current liabilities as at 30 June 2013 are the C\$4.0 million of convertible debentures issued in June 2012. These are also denominated in Canadian dollars. These debentures are shown as current liabilities as at 30 June 2014.

The convertible debentures on issue at 30 June 2014 are secured by a first-ranking charge over all of the assets of the Company and its subsidiaries. The convertible notes were in default post year end on 31 July 2014 due to non-repayment.

<b>Borrowings</b>	<b>2014</b>	<b>2013</b>
Convertible Debenture (Issued February 2012) (Maturing Dec 31, 2013)	-	2,518,142
Convertible Debenture (Issued June 2012) (Maturing July 31, 2014)	4,318,527	3,415,235
	<u>4,318,527</u>	<u>5,933,377</u>

**20. Contributed equity**

	Number of securities		Value in AUD	
	2014	2013	2014	2013
Shares on issue:				
Ordinary shares - fully paid	67,672,755	469,339,034	42,439,012	37,167,847
Share issue costs	-	-	(1,745,352)	(1,671,723)
	<u>67,672,755</u>	<u>469,339,034</u>	<u>40,693,660</u>	<u>35,496,124</u>
	Number of securities		Value in AUD	
	2014	2013	2014	2013
Number of shares under options and warrants	9,925,867	132,543,985	2,449,016	2,449,016
	<u>9,925,867</u>	<u>132,543,985</u>	<u>2,449,016</u>	<u>2,449,016</u>

**Movement in share capital for the year ended 30 June 2013**

2013 Financial Year (12 months)	Ordinary shares	Number of shares	Issue price	AUD
1 July 2012	Opening balance	460,798,137		35,091,823
4 July 2012	Shares in lieu of quarterly interest	1,343,961	\$ 0.0496	66,594
2 October 2012	Shares in lieu of quarterly interest	2,946,936	\$ 0.0492	144,988
21 December 2012	Shares in lieu of director fees	650,000	\$ 0.0500	32,500
9 April 2013	Shares in lieu of quarterly interest	1,380,831	\$ 0.0472	65,139
19 April 2013	Shares in lieu of quarterly interest	2,219,169	\$ 0.0472	104,688
	Cost of placement			(9,608)
<b>30 June 2013</b>	<b>Closing balance</b>	<u>469,339,034</u>		<u>35,496,124</u>

**Movement in share capital for the year ended 30 June 2014**

2014 Financial Year (12 months)	Ordinary shares	Number of shares	Issue price	AUD
1 July 2013	Opening balance	469,339,034		35,496,124
18 July 2013	Shares in lieu of quarterly interest	4,666,659	\$ 0.0155	72,172
27 September 2013	Placement	28,234,666	\$ 0.0150	424,286
4 October 2013	Shares in lieu of quarterly interest	7,000,000	\$ 0.0104	72,947
5 December 2013	Placement (directors subscription)	5,098,667	\$ 0.0153	77,766
19 December 2013	Share consolidation (25:1)	(493,765,327)	\$ -	-
23 December 2013	Shares in lieu of director fees	1,345,349	\$ 0.1325	178,259
31 December 2013	Shares in lieu of quarterly interest (Feb deb's)	598,290	\$ 0.1228	73,499
31 December 2013	Shares in lieu of quarterly interest (June deb's)	1,423,490	\$ 0.1180	167,997
31 December 2013	Redemption of February debentures	23,931,615	\$ 0.1228	2,939,940
31 January 2014	Tranche 1 of private placement	3,846,154	\$ 0.0664	255,285
19 February 2014	Tranche 2 of private placement	5,489,231	\$ 0.0659	361,866
31 March 2014	Shares in lieu of quarterly interest (June deb's)	2,763,388	\$ 0.0568	156,848
9 May 2014	Tranche 3 of private placement	5,578,462	\$ 0.0637	355,350
19 June 2014	Tranche 4 of private placement	2,123,077	\$ 0.0636	134,950
	Cost of placement			(73,629)
<b>30 June 2014</b>	<b>Closing balance</b>	<u>67,672,755</u>		<u>40,693,660</u>

## 21. Reserves

	Consolidated	
	2014	2013
	AUD	AUD
Share based payments	2,449,016	2,449,016
Foreign currency translation reserve	508,495	596,588
	<u>2,957,511</u>	<u>3,045,604</u>

### Reconciliation of movement in reserves

#### Share-based payments reserve

Balance at the beginning of period	2,449,016	2,186,539
Equity settled share-based payment transactions	-	262,477
Balance	<u>2,449,016</u>	<u>2,449,016</u>

#### Foreign currency translation reserve

Balance at the beginning of period	596,588	(264,427)
Effect of translation of foreign currency operations to group presentation currency	(88,093)	861,015
Balance	<u>508,495</u>	<u>596,588</u>

#### Share based payments reserve

The reserve represents the value of options issued under the compensation arrangement that the Group is required to include in the consolidated financial statements. This reserve will be transferred to retained earnings when the underlying options vest and are exercised by the employee or consultant.

#### 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.

## 22. Accumulated losses

	Consolidated	
	2014	2013
	AUD	AUD
Balance at beginning of financial year	(40,183,599)	(33,765,810)
Net loss attributable to equity holders	(5,303,108)	(6,417,789)
	<u>(45,486,707)</u>	<u>(40,183,599)</u>

## 23. Financial instruments

### (a) Credit Risk

#### *Exposure to credit risk*

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	Carrying amount	
	Jun 2014	Jun 2013
	AUD	AUD
Cash and cash equivalents	144,453	152,040
Trade and other receivables*	513,905	488,583

\*Trade and other receivables excludes GST receivables and prepayments

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	Jun 2014	Jun 2013
	AUD	AUD
United States	-	-
Australia	-	-
	-	-

The Group's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	Jun 2014	Jun 2013
	AUD	AUD
Wholesale customers	-	-
Other customers	-	-
	-	-

#### *Past Due*

All trade receivables at this time are with one customer who is situated in the United States.

The ageing of the Group's trade receivables at the reporting date was:

	Jun 2014		Jun 2013	
	Gross AUD	Impairment AUD	Gross AUD	Impairment AUD
Not past due (0-30 days)	-	-	-	-
	-	-	-	-

**23. Financial Instruments (continued)**

**(b) Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and it excludes the impact of netting agreements.

**Consolidated**  
**30 June 2014**

	Carrying amount	Contractual Cashflows	6 months or less	6 - 12 months	12+ months
	AUD	AUD	AUD	AUD	AUD
<b>Non-derivative financial liabilities</b>					
Trade and other payables*	1,450,509	1,450,509	1,450,509	-	-
Borrowings	4,318,527	4,361,804	4,361,804	-	-

\* Excludes Share Based Payments

**Consolidated**  
**30 June 2013**

	Carrying amount	Contractual Cashflows	6 months or less	6 - 12 months	12+ months
	AUD	AUD	AUD	AUD	AUD
<b>Non-derivative financial liabilities</b>					
Trade and other payables*	897,820	897,820	897,820	-	-
Borrowings	5,933,377	7,835,861	3,258,069	226,828	4,350,964

\* Excludes Share Based Payments

**(c) Currency risk**

*Exposure to currency risk*

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	Jun 2014		Jun 2013	
	AUD	USD	AUD	USD
Cash and cash equivalents	-	-	1,587	1,472

	Jun 2014		Jun 2013	
	AUD	CAD	AUD	CAD
Cash and cash equivalents	-	-	228	221
Borrowings	(4,318,527)	(4,343,143)	(5,933,377)	(5,754,782)

The following significant exchange rates applied during the year:

	Average Rate		Spot Rate at Report Date	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
AUD	0.9187	1.0271	0.9420	0.9275
USD	1.0885	0.9736	1.0616	1.0782
AUD	0.9826	1.0312	1.0057	0.9699
CAD	1.0177	0.9697	0.9943	1.0310

**23. Financial Instruments (continued)**

*Sensitivity Analysis*

A 10% weakening of the Australian dollar (AUD) against the US dollar (USD) at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, such as interest rates, remain constant. The analysis is performed on the same basis for 2013.

	<b>Consolidated</b>	
	<b>Equity</b>	<b>Net Income</b>
<b>2014</b>		
USD	-	-
<b>2013</b>		
USD	-	176

A 10% strengthening of the Australian dollar (AUD) against the US dollar (USD) at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, such as interest rates, remain constant. The analysis is performed on the same basis for 2013.

	<b>Consolidated</b>	
	<b>Equity</b>	<b>Net Income</b>
<b>2014</b>		
USD	-	-
<b>2013</b>		
USD	-	(144)

A 10% weakening of the Australian dollar (AUD) against the Canadian dollar (CAD) at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, such as interest rates, remain constant. The analysis is performed on the same basis for 2013.

	<b>Consolidated</b>	
	<b>Equity</b>	<b>Net Income</b>
<b>2014</b>		
CAD	-	(479,836)
<b>2013</b>		
CAD	-	(659,239)

A 10% strengthening of the Australian dollar (AUD) against the Canadian dollar (CAD) at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, such as interest rates, remain constant. The analysis is performed on the same basis for 2013.

	<b>Consolidated</b>	
	<b>Equity</b>	<b>Net Income</b>
<b>2014</b>		
CAD	-	392,593
<b>2013</b>		
CAD	-	539,377

**23. Financial Instruments (continued)**

**(d) Fair values**

*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Consolidated	Jun 2014		Jun 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	AUD	AUD	AUD	AUD
Cash and cash equivalents	144,453	144,453	152,040	152,040
Loans and receivables	513,905	513,905	488,583	488,583
Trade and other payables	(1,450,509)	(1,450,509)	(897,820)	(897,820)
Provision	(824,311)	(824,311)	(734,264)	(734,264)
Derivative liability	-	-	(78,501)	(78,501)
Borrowings	(4,318,527)	(4,318,527)	(5,933,377)	(5,933,377)
	<b>(5,934,989)</b>	<b>(5,934,989)</b>	<b>(7,003,339)</b>	<b>(7,003,339)</b>

**24. Capital and other commitments**

	Consolidated	
	2014	2013
	AUD	AUD
<b>Capital Expenditure commitments</b>		
Exploration expenditure		
Within one year	36,345	400,966
One to five years	43,242	106,382
	<b>79,587</b>	<b>507,348</b>

The capital expenditure commitments represents at this time what the Group expects will be required to pay on the projects it has secured. Were the Group not to make these payments then their rights on the projects would be relinquished.

**Lease commitments**

Rental Property and Office Administration leases

Within one year	4,926	24,814
One to five years	-	-
	<b>4,926</b>	<b>24,814</b>

The Group leases offices in Australia and the United States. The commitments shown reflect rent on the Australian office leases for the upcoming 12 months on the premises. The Group has only a month to month commitment under the terms of the United States office lease. There is no commitment with the Australian office beyond twelve months. Also included is a service agreement relating to the US office.

Consulting Agreements

Within one year	77,495	78,706
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Financial Obligations

Within one year	4,361,804	3,484,897
One to five years	-	4,350,964
	<b>4,439,299</b>	<b>7,914,567</b>

Consulting Agreements reflect notice commitments on consultant or employment agreements. Financial obligations relate to interest commitments and repayments of principal.



**25. Consolidated entities**

Name of entity	Country of Incorporation	Class of shares	Ownership interest	
			2014	2013
<b>Parent Entity</b>				
Solimar Energy Ltd	Australia	Ordinary		
<b>Controlled Entities</b>				
Livingstone Energy Inc	United States	Ordinary	100%	100%
Solimar Australia Energy Pty Ltd	Australia	Ordinary	100%	100%
Solimar Energy LLC	United States	Ordinary	100%	100%

**26. Reconciliation of cash flows from operating activities**

	Consolidated	
	2014 AUD	2013 AUD
<b>Cash flows from operating activities</b>		
Loss for the period	(5,303,108)	(6,417,789)
Adjustments for:		
Impairment on assets	701,159	3,634,670
Accretion on restoration provision	52,848	48,033
Writedown of restoration provision	-	(51,942)
Depreciation and amortisation	104,482	127,964
Foreign exchange (gain) / expense	(143,520)	424,327
Equity settled share based payment expenses	-	262,476
Shares issued in lieu of cash settlement	178,256	32,500
Shares issued in lieu of interest	913,578	314,815
Gain / (loss) on sale of Asset	142,118	(331,833)
Gain on derivative	(98,577)	(2,015,823)
Interest accrued	369,358	825,691
Loss on re-estimation of cashflows on convertible debentures	705,256	-
<b>Operating loss before changes in working capital and provisions</b>	(2,378,150)	(3,146,911)
(Increase) / decrease in trade and other receivables	56,303	11,316
(Decrease) / increase in trade and other payables	790,102	(471,078)
	(1,531,745)	(3,606,673)
<b>Net cash from / (used in) operating activities</b>	(1,531,745)	(3,606,673)

## 27. Key Management Personnel Compensation

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

### **Non-executive directors**

Frank Petruzzelli  
Mark Elliott  
Charle Gamba  
Jason Bednar  
Will Satterfield  
Ryan Dunfield (resigned 22 July 2013)

### **Executives**

Chris Bowyer (resigned 28 February 2014)  
Chris Ritchie (appointed 1 March 2014)

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

### **Key management personnel compensation**

	Consolidated	
	2014	2013
	AUD	AUD
Short term employee benefits	328,859	775,677
Equity compensation benefits	-	251,868
	<b>328,859</b>	<b>1,027,545</b>

Information regarding individual directors and executives compensation and some equity instrument disclosures, is provided in the Remuneration Report section of the Directors' report on pages 9 to 12.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group 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**

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 (2013: Nil).

### **Loans from key management personnel and their related parties**

At the reporting date there were no loans outstanding from key management personnel and their related parties. (2013: 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.

**27. Key management and personnel compensation (continued)**

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

	Consolidated	
	2014	2013
	AUD	AUD
<i>Specified Directors</i>		
Frank Petruzzelli	(i) 166,408	383,649

(i) During the current period and previous period the Company was charged for accounting, corporate secretarial services, consultancy services and office costs by MDB, an accounting practice of which Frank Petruzzelli is a principal. Included in these costs were various disbursements for travel paid by MDB on behalf of Solimar. Frank Petruzzelli's director fees are not included in this total.

**Assets and liabilities arising from the above transactions**

	Consolidated	
	2014	2013
	AUD	AUD
Trade and other payables	281,173	127,015
Current liabilities	281,173	127,015

**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:

2014 Directors/Executives	Held at 1 July 2013	Granted as compensation	Exercised	Other Changes*	Held at 30 June 2014	Vested during the Year	Vested & exercisable at 30 June 2014
Frank Petruzzelli	220,000	-	-	74,800	294,800	74,800	294,800
Mark Elliott	200,000	-	-	62,400	262,400	62,400	262,400
Charle Gamba	247,778	-	-	66,667	314,445	66,667	314,445
Jason Bednar	220,000	-	-	-	220,000	-	220,000
Ryan Dunfield	100,000	-	-	-	100,000	-	100,000
Will Satterfield	280,000	-	-	-	280,000	-	280,000
Chris Ritchie	-	-	-	-	-	-	-
Chris Bowyer	41,000	-	-	-	41,000	-	41,000
	1,308,778	-	-	203,867	1,512,645	203,867	1,512,645

\* Other changes represent options issued as free attaching to share issued under private placement.

2013 Directors/Executives	Held at 1 July 2012	Granted as compensation	Exercised	Other Changes*	Held at 30 June 2013	Vested during the Year	Vested & exercisable at 30 June 2013
John Begg	216,000	80,000	-	-	296,000	80,000	296,000
Frank Petruzzelli	180,000	40,000	-	-	220,000	40,000	220,000
Mark Elliott	160,000	40,000	-	-	200,000	40,000	200,000
Charle Gamba	207,778	40,000	-	-	247,778	40,000	247,778
Jason Bednar	180,000	40,000	-	-	220,000	40,000	220,000
Ryan Dunfield	-	100,000	-	-	100,000	100,000	100,000
Will Satterfield	200,000	80,000	-	-	280,000	80,000	280,000
Chris Bowyer	16,000	25,000	-	-	41,000	25,000	41,000
	1,159,778	445,000	-	-	1,604,778	445,000	1,604,778

\* Other changes represent options that expired, were cancelled, forfeited or purchased during the year.

Both tables have been amended to reflect post 25:1 consolidation holdings.

**27. Key Management and Personnel Compensation (continued)**

Further information on the terms and conditions of each grant made during the reporting period can be found in Note 28.

**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:

2014 - Directors / Executives	Held at 1 July 2013	Purchases	Received on exercise of options	Issued in lieu of Bonus	Issued in lieu of Fees	Held at 30 June 2014
Frank Petruzzelli	387,168	74,880	-	-	542,980	1,005,028
Mark Elliott	377,446	62,400	-	-	267,457	707,303
Charle Gamba	94,848	66,667	-	-	267,457	428,972
Jason Bednar	43,349	-	-	-	267,457	310,806
Ryan Dunfield	-	-	-	-	-	-
Will Satterfield	27,520	-	-	-	-	27,520
Chris Ritchie	-	-	-	-	-	-
Chris Bowyer	-	-	-	-	-	-
	930,331	203,947	-	-	1,345,351	2,479,629

2013 - Directors / Executives	Held at 1 July 2012	Purchases	Received on exercise of options	Issued in lieu of Bonus	Issued in lieu of Fees	Held at 30 June 2013
John Begg	71,429	-	-	-	-	71,429
Frank Petruzzelli	387,168	-	-	-	-	387,168
Mark Elliott	377,446	-	-	-	-	377,446
Charle Gamba	81,848	-	-	-	13,000	94,849
Jason Bednar	30,349	-	-	-	13,000	43,349
Ryan Dunfield	-	-	-	-	-	-
Will Satterfield	-	27,520	-	-	-	27,520
Chris Bowyer	-	-	-	-	-	-
	948,240	27,520	-	-	26,000	1,001,761

Both tables have been amended to reflect post 25:1 consolidation holdings.

**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**

Mr Ryan Dunfield resigned as a non-executive director on 22 July 2013.

Mr Chris Bowyer resigned as Chief Financial Officer and Company Secretary on 28 February 2014.

Mr Chris Ritchie was appointed as Chief Financial Officer and Company Secretary on 1 March 2014.

## 28. Share-based payments

### a) Option plans

No remuneration options were issued during the 201 financial year or subsequent to year end.

Set out below are the summaries of options granted / on issue at 30 June:

#### Consolidated entity – 2014

Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Cancelled during the period	Expired during the period	Balance at end of the period	Vested and exercisable at end of the period
28/02/2011	28/02/2015	A\$1.97	120,000	-	-	-	120,000	120,000
29/07/2011	01/07/2014	A\$3.19	128,000	-	-	-	128,000	128,000
29/07/2011	01/07/2014	A\$4.50	416,000	-	-	-	416,000	416,000
29/07/2011	01/07/2014	A\$4.50	340,000	-	-	-	340,000	340,000
29/11/2011	05/10/2014	C\$3.60	360,000	-	-	-	360,000	360,000
01/01/2012	04/07/2016	A\$3.19	200,000	-	-	-	200,000	200,000
21/12/2012	30/11/2015	C\$2.50	420,000	-	-	-	420,000	420,000
26/02/2013	30/11/2015	C\$2.50	60,000	-	-	-	60,000	60,000
			2,044,000	-	-	-	2,044,000	2,044,000
Weighted average exercise price (\$)			0.1166	-	-	-	0.1393	0.1393

The options outstanding at 30 June 2014 have a weighted average exercise price of \$0.1393 (2013:\$0.1402). They have a weighted average contractual life of 2.12 years (2013:3.12 years).

During the financial year, no options were issued to Directors or Executives were exercised (2013: Nil).

#### Consolidated entity – 2013

Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Forfeited during the period	Expired during the period	Balance at end of the period	Vested and exercisable at end of the period
28/02/2011	28/02/2015	A\$1.97	120,000	-	-	-	120,000	120,000
29/07/2011	01/07/2014	A\$3.19	128,000	-	-	-	128,000	128,000
29/07/2011	01/07/2013	A\$3.19	60,000	-	-	(60,000)	-	-
29/07/2011	01/07/2014	A\$4.50	416,000	-	-	-	416,000	416,000
29/07/2011	01/07/2014	A\$4.50	340,000	-	-	-	340,000	340,000
29/11/2011	05/10/2014	C\$3.60	360,000	-	-	-	360,000	360,000
01/01/2012	04/07/2016	A\$3.19	200,000	-	-	-	200,000	200,000
21/12/2012	30/11/2015	\$C2.50	-	420,000	-	-	420,000	420,000
26/02/2013	30/11/2015	C\$2.5	-	60,000	-	-	60,000	60,000
			1,624,000	480,000	-	(60,000)	2,044,000	2,044,000
Weighted average exercise price (\$)			0.1515	0.0965	-	0.1275	0.1393	0.1402

**28. Share-based payments (continued)**

**b) Expenses arising from share-based transactions**

	Consolidated	
	2014 AUD	2013 AUD
Shares and options granted		
- equity settled	-	262,477
Recognised		
as Professional fees	-	6,806
Recognised		
as Personnel expenses	-	255,671
Recognised		
as Other expenses	-	-
Recognised		
as Research & Exploration	-	-
	-	262,477

**29. Subsequent events**

**29.1 Notice of Default from Debenture Trustee**

The Company received a Notice of Default from Computershare Trust Company of Canada on 24 July 2014, in its capacity as the Trustee (the "Trustee") under the Convertible Debenture Indenture dated 26 June 2012, providing for the issuance of convertible debentures by the Company (the "Debentures") regarding the failure to pay interest thereon when due. Under the notice of default the Trustee has requested the payment of the outstanding interest and principal owing on the Debentures, however, the Company is currently in negotiations with the holders of the June Debentures. Additionally negotiations continue in regard to the possible purchase of the outstanding convertible debentures by a third party from debenture holders and if successful for the maturity-date of these debentures to be extended. The proposed transaction is currently undergoing due diligence and independent financial assessment. The acquisition of these convertible debentures may ultimately lead to the sale of the Company's working interest in the Kreyenhagen project.

**29.2 Tejon Ranch project**

In October 2014, North American Oil and Gas Corporation, the operator of the Tejon Ranch project informed the Company that it will no longer pay lease delay rentals. Should the Company not take over the lease delay rentals then its interest in the project will terminate. The Company is currently reviewing its options

**29.3 Suspension from Trading on ASX**

The Company's listed securities were temporarily suspended from trading on the ASX from 1 October 2014 to the day after the issue of this report

### 30. Parent Entity Information

The following details information related to the parent entity, Solimar Energy Limited, at 30 June 2014. The information here has been prepared using consistent accounting policies as presented in Note 1.

Parent Entity	2014	2013
	AUD	AUD
Current assets	44,741	61,566
Non-current assets	8,636,527	9,922,088
Total assets	8,681,268	9,983,654
Current liabilities	1,436,667	3,405,106
Non-current liabilities	9,080,137	8,220,419
Total liabilities	10,516,804	11,625,525
Contributed equity	43,132,806	37,935,270
Reserves	3,812,575	3,812,575
Accumulated losses	(48,780,917)	(43,389,716)
Total equity	(1,835,536)	(1,641,871)
Profit / (loss) for the year	(3,951,688)	(5,556,775)
Total comprehensive income / loss for the year	(3,951,688)	(5,556,775)

There is a difference between the contributed equity of the Company and that of the Group as a result of accounting for the reverse acquisition which occurred in the 2007 financial year. Per AASB 3 'Business Combinations', Solimar Australia Energy Proprietary Limited was deemed to acquire Livingstone Petroleum Limited (now known as Solimar Energy Limited) which was shown at fair value in the consolidated statement of financial position.

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

### 31. Working Capital Requirements and Capital and Leasing Commitments

The Group has a deficiency in working capital of \$5,816,904 (2013: \$3,537,166).

### 32. Contingent liability

When the Company increased its position in the Kreyenhagen Ranch Project to 100% (April 2011) it agreed to future success based payments which would be payable on the achievement of reserve certification milestones. The Company has not recognised any provision for these payments as the likelihood of these milestones being achieved as well as the timing is currently uncertain and subject to a number of factors outside of the Company's control.

## **1. CORPORATE GOVERNANCE STATEMENT**

### **OVERVIEW**

In March 2003, the Australian Securities Exchange (ASX) Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations").

In August 2007, the ASX Corporate Governance Council published a revised Principles and Recommendations (2nd Edition) to ensure that these remain relevant to the Australian business and investment communities. These revised Principles and Recommendations reflect the contributions of more than 100 public submissions and took effect from 1 January 2008.

The ASX Corporate Governance Council's Recommendations are not mandatory and cannot, in themselves, prevent corporate failure or poor corporate decision-making. They are intended to provide a reference point for companies about their corporate governance structures and practices. There is no single model of good corporate governance. The document articulates eight core principles ("the Principles").

The ASX Corporate Governance Council encourages companies to use the guidance provided by this document as a focus for re-examining their corporate governance practices and to determine whether and to what extent the company may benefit from a change in approach, having regard to the company's particular circumstances. There is little value in a checklist approach to corporate governance that does not focus on the particular needs, strengths and weaknesses of the company. The ASX Corporate Governance Council recognises that the range in size and diversity of companies is significant and that smaller companies from the outset may face particular issues in following all Recommendations.

The Recommendations are not prescriptions, they are guidelines, designed to produce an outcome that is effective and of high quality and integrity. This document does not require a "one size fits all" approach to corporate governance. Instead, it states suggestions for practices designed to optimise corporate performance and accountability in the interests of shareholders and the broader economy. If a company considers that a Recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it - a flexibility tempered by the requirement to explain why – the "if not, why not" approach.

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

The Company's Corporate Governance Statement is structured below with reference to the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition). Further information on the Company's Corporate Governance policies is located at [www.solimarenergy.com.au](http://www.solimarenergy.com.au).

## **2. PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

### **2.1 Companies should establish and disclose the respective roles and responsibilities of board and management.**

- **Recommendation 1.1:** Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.
- **Recommendation 1.2:** Companies should disclose the process for evaluating the performance of senior executives.
- **Recommendation 1.3:** Companies should provide the information indicated in the Guide to reporting on Principle 1.



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 usually responsible for:

- overseeing the company, including its control and accountability systems
- appointing and removing the chief executive officer, or equivalent where appropriate, ratifying the appointment and the removal of senior executives
- providing input into and final approval of management's development of corporate strategy and performance objectives
- reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct, and legal compliance
- monitoring senior executives' performance and implementation of strategy
- ensuring appropriate resources are available to senior executives
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures
- approving and monitoring financial and other reporting.

## **2.2 The Company's practice:**

There is a Board Charter which sets out the role of the Board and the Company Secretary. This charter is published on the Company's website and contains many of the responsibilities described above. The Board is responsible to the shareholders for the corporate governance practices of the Company. The management and the Company's consultants are expected to regularly give written and verbal communications to the directors on financial and operational matters.

The process for evaluating the performance of senior executives involves discussions at the Board about the delivery of project milestones, involving such key issues as drilling, production and financial objectives. If executives have met these objectives then their performance will be rewarded in terms of salary and the Company's long term incentive option plan.

The Chief Executive Officer (CEO) has responsibility for the day-to-day operations and administration of the Group. Assisting the CEO is a team of consultants who in consultation with the CEO oversee operational matters in the United States. With the resignation of the CEO in June 2013 an executive committee led by Jason Bednar is currently performing those duties that would normally be undertaken by the CEO. The Board also monitors the financial budget in consultation with the Chief Financial Officer in Australia and management in the United States.

## **3. PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

### **3.1 Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.**

- **Recommendation 2.1:** A majority of the board should be independent directors.
- **Recommendation 2.2:** The chair should be an independent director.
- **Recommendation 2.3:** The roles of chair and chief executive officer should not be exercised by the same individual.
- **Recommendation 2.4:** The board should establish a nomination committee.
- **Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
- **Recommendation 2.6:** Companies should provide the information indicated in the Guide to reporting on Principle 2.

### **3.2 The Company's practice:**

#### ***Independence***

The ASX Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. The ASX 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.

Based on the above definition and the behaviour of the board, the Board at this time considers Messrs Petruzzelli, Elliott, Gamba and Satterfield to be independent directors of the Company. Mr Petruzzelli is an independent Chairman.

#### ***Composition and Experience***

As at the date of this report, the directors of the Company (and the duration of their respective terms in office) are as follows:

<b>Name of Director</b>	<b>Position</b>	<b>Term in office</b>
Frank Petruzzelli	Chairman	7 years
Mark Elliott	Non-executive Director	7 years
Charle Gamba	Non-executive Director	3 years
Jason Bednar	Non-executive Director	3 years
Will Satterfield	Non-executive Director	2 year

#### ***Nomination Committee***

The Company does not presently have a nomination committee. Any prospective appointments are reviewed by the Board as a whole.

#### ***Monitoring Board Performance***

The criteria involved in evaluating the Board's performance are outlined in Section 8 of the Board's Charter which is published on the Company's website. It is expected that all Directors attend Board Meetings and make meaningful, constructive contributions to protect the interests of all shareholders and grow the value of the Company.

The Company encourages any new Directors to learn about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning the performance of Directors.

Directors are also encouraged to participate in continuing education opportunities to update and enhance their skills and knowledge. Examples of this involve attendance at the Australian Institute of Company Directors (AICD) courses and technical training sessions with the Australian Petroleum Production & Exploration Association (APPEA).

## **4. PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

### **4.1 Companies should actively promote ethical and responsible decision-making.**

- **Recommendation 3.1:** Companies should establish a code of conduct and disclose the code or a summary of the code as to:
  - the practices necessary to maintain confidence in the company's integrity.
  - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.

- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
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- **Recommendation 3.2:** Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.
- **Recommendation 3.3:** Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.
- **Recommendation 3.4:** Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.
- **Recommendation 3.5:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

## **4.2 The Company's practice:**

### ***Ethical Standards***

All directors and employees of the Company are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Company has adopted a Code of Conduct which commits it to operating in an environment that promotes ethical and responsible decision-making along with a requirement to act with integrity in its dealings with employees, consultants and the broader outside community.

The Code of Conduct, which is published on the Company's website, commits individuals associated with the Company to the following principles:

- Respect the Law
- Manage Conflicts of Interest
- Respect their role as stewards of the Company
- Respect the relationships they have with others and themselves
- Respect their relationship with employees / consultants
- Respect their relationship with the environment

### ***Diversity***

The Company does not have a diversity policy. At this time the Board believes the Company adopts an open and inclusive attitude in decisions on the employment of individuals and the appointment of new directors. The Company wishes to ensure that it seeks and retains the best people for the roles assigned regardless of gender.

Category	Women as a proportion of total
Organisation as a whole	10%
Senior Executive Positions	0%
Board of Directors	0%

## **5. PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

### **5.1 Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.**

- **Recommendation 4.1:** The board should establish an audit committee.
- **Recommendation 4.2:** The audit committee should be structured so that it:
  - consists only of non-executive directors
  - consists of a majority of independent directors
  - is chaired by an independent chair, who is not chair of the board and has at least three members.
- **Recommendation 4.3:** The audit committee should have a formal charter.
- **Recommendation 4.4:** Companies should provide the information indicated in the Guide to reporting on Principle 4.

### **5.2 The Company's practice:**

#### ***Audit Committee***

The Company has established an Audit Committee which has responsibility for oversight of the financial reporting process. The Audit Committee has a charter which formally sets out its duties and responsibilities. The objectives of the Committee, with respect to the Company are as follows:

- Assist directors to meet their responsibilities in respect of the preparation and disclosure of the financial reports of the Corporation and related matters.
- Provide an open avenue of communication among the Corporation's auditors, financial and senior management and the Board.
- Ensure the external auditors' independence and review and appraise their performance.
- Increase the credibility and objectivity of financial reports.
- Strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

The Audit Committee currently consists of three directors and they are required to meet at least two times a year. At least once a year the Committee is required to meet with management and the external auditors.

## **6. PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

### **6.1 Companies should promote timely and balanced disclosure of all material matters concerning the company.**

- **Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- **Recommendation 5.2:** Companies should provide the information indicated in the Guide to reporting on Principle 5.

### **6.2 The Company's practice:**

#### ***Continuous Disclosure Policy***

The Board promotes timely and balanced disclosure of all material matters concerning the Company. The Company has adopted a Continuous Disclosure policy which ensures compliance with its disclosure obligations under the ASX Listing Rules and the Corporations Act in Australia.

The Policy sets out:

- The Principles of Continuous Disclosure under Listing Rule 3.1;
- Delegation of responsibility to the Company/Directors and Company Secretary for ensuring the Company complies with its continuous disclosure requirements;
- Review of information to be disclosed to the market;
- Dealing with ASX queries and market rumours; and
- The Board and Company Secretary include commentary in its periodic reporting to ensure that investors can make an informed assessment of the entity's activities and results.

Every effort is made by the Directors to release timely information about leasing, exploration and production activities when it does not compromise the competitive position or value of the company.

Further details on the Continuous Disclosure Policy are published on the Company's website [www.solimarenergy.com.au](http://www.solimarenergy.com.au).

## **7. PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

### **7.1 Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.**

- **Recommendation 6.1:** Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
- **Recommendation 6.2:** Companies should provide the information indicated in the Guide to reporting on Principle 6.

### **7.2 The Company's practice:**

#### ***Shareholder Communication***

The Board aims to ensure that the Company's shareholders are informed of all information necessary to assess the performance of the Company.

Mechanisms employed by the Company to ensure effective communication with shareholders include:

- regular shareholder communications such as Quarterly Activities and Cash flow Reports, Half-Yearly Reports, Annual Reports and exploration updates;
- shareholder access to communications, including market announcements, through the Company's website and email alerts;
- presentations made by the Chairman and Company's consultants to financial industry professionals and shareholders; and
- Encouraging attendance at the Annual General Meeting.

The Company at this time has not developed a formal communications policy in respect of its shareholders. The Board do however recognise the importance of formalising a policy and will be seeking to put together a policy once its priorities allow it to devote sufficient resources to undertake this.

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.

## **8. PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

### **8.1 Companies should establish a sound system of risk oversight and management and internal control.**

- **Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
- **Recommendation 7.2:** The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
- **Recommendation 7.3:** The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
- **Recommendation 7.4:** Companies should provide the information indicated in the Guide to reporting on Principle 7.

### **8.2. The Company's practice:**

#### ***Recognise and manage Risks***

Solimar Energy recognises that the risks which could affect the results of the Company include: oil and gas price fluctuations; actual demand for oil and gas; currency fluctuations; drilling and production results; resource estimates; loss of market; industry competition; environmental risks; physical risks; legislative, fiscal and regulatory developments; economic and financial market conditions in the US; political risks; project delays or advancements; approvals and cost estimates; solvency risks and drilling problems.

Solimar Energy is aware of these risks and risk management and internal control systems are being progressively developed to manage all these risks. There is no formal risk management policy that has yet been instituted by the Board. The Board however through its regular board meetings is cognizant of the critical areas of risk that a company such as Solimar faces in its current operating environment.

No currency or oil & gas pricing hedging policies are in place due to most of the operating expenses being in US dollars which provides a natural hedge with oil and gas sales in the same currency. However, from time-to-time the Board may exchange A\$ into US\$ when it feels it advantageous to do so.

Solimar Energy's US subsidiaries have policies and procedures relating to health and safety to ensure compliance with the US Federal Government's Occupational Safety and Health Act as well as the State of California's Occupational Safety and Health Act.

### ***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 based on the COSO framework that deals with:

- *Financial reporting* - there is a comprehensive budgeting system with a rolling budget, updated on a regular basis and reviewed by the Board. The budget assists the Board and management with forecasting cash requirements and monitoring proposed expenditures against actuals.
- *Investment appraisal* - the Company has guidelines for: capital expenditure; levels of authority; and due diligence requirements where businesses or assets are being acquired or divested.

### ***Assurances***

The chief executive and company secretary have provided in writing to the Board a statement that meets the requirements of Recommendation 7.3.

## **9. PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

### **9.1 Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.**

- **Recommendation 8.1:** The board should establish a remuneration committee.
- **Recommendation 8.2:** Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
- **Recommendation 8.3:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

### **9.2 The Company's practice:**

#### ***Remuneration Committee***

The Board has created a remuneration committee. The remuneration committee is expected to meet twice a year to discuss issues concerning the remuneration of consultants, executives and the Board. The remuneration committee currently consists of three non-executive directors.

#### ***Remuneration sStructure***

The Company's objective is to establish and maintain a Board that consists of experienced and motivated directors who possess appropriate skills and expertise to promote the Company's success. The policy of the Company is to seek to ensure a clear relationship between director performance, the role they perform and remuneration received.

In relation to the payment of bonuses, issue of securities and other incentive payments, discretion is exercised by the Board having regard to both the Company's performance and the performance of the individual concerned. Details of the Company's remuneration policy are contained in the Remuneration Report section of the Directors' Report in the latest Annual Report.

## **SOLIMAR ENERGY LIMITED**

### **ADDITIONAL SHAREHOLDER INFORMATION**

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#### **EXCHANGE LISTING**

Solimar Energy Limited shares are listed on the Australian Securities Exchange (ASX) and Toronto Venture Exchange (TSXV). The Company's ASX code is SXS and TSXV code is SXS.

#### **SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)**

As at 30 September 2014 the Company had the following substantial shareholders.

Canacol Energy Limited	13.38%
Rio Bravo Commercial Enterprises	9.97%

#### **CLASS OF SHARES AND VOTING RIGHTS**

At 30 September 2014 there were 986 holders of 67,672,755 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 30 September 2014)**

<b>Spread of Holdings</b>	<b>Number of Holders</b>	<b>Number of Ordinary Shares</b>	<b>% of Total Issued Capital</b>
1 – 1,000	364	162,273	0.24%
1,001 – 5,000	309	810,222	1.20%
5,001 – 10,000	119	897,448	1.33%
10,001 – 100,000	161	4,669,851	6.90%
100,001 and over	33	61,132,961	90.33%
<b>Total</b>	<b>986</b>	<b>67,672,755</b>	<b>100.000%</b>

The number of shareholders holding less than a marketable parcel is 884 totalling 3,410,461 shares.

#### **ESCROWED SECURITIES**

2,123,077 shares and 1,061,538 warrants that are escrowed until 23 October 2014. The Company does not have any other securities on issue that are subject to escrow restrictions.

#### **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 30 September 2014)**

	<b>Name of Ordinary Shareholder</b>	<b>Number of Shares Held</b>	<b>Percentage of Shares Held %</b>
1.	CDS & Co	41,753,462	61.70%
2.	Canacol Energy Ltd	9,054,516	13.38%
3.	JP Morgan Nominees Australia Ltd	1,839,036	2.72%
4.	Your Care Pty Ltd	8895,481	1.32%
5.	Calex Energy Resources Inc.	876,068	1.29%
6.	Towertun Pty Ltd	876,068	1.29%
7.	Merrill Lynch (Australia) Nominees P/L	778,452	1.15%
8.	ABN Amro Clearing Sydney Nominees P/L	472,787	0.70%
9.	Rio Bravo Commercial Enterprises	438,034	0.65%
10.	Mr R J Rosenthal	339,167	0.50%
11.	Citicorp Nominees Pty Ltd	324,234	0.48%
12.	Mr M Elliott	267,456	0.40%
13.	Mr J Bednar	267,456	0.40%
14.	Mr C Gamba	267,456	0.40%
15.	National Nominees Limited	254,813	0.38%
16.	HSBC Custody Nominees (Australia) Ltd	240,110	0.35%
17.	Mr P Capp	240,000	0.35%
18.	Mr R Pathik	233,996	0.35%
19.	Hiles Pty Ltd <GLC Superannuation Fund>	169,120	0.25%
20.	Mrs K Graves	167,296	0.25%
	<b>TOTAL:</b>	<b>59,755,008</b>	<b>88.30%</b>

**SOLIMAR ENERGY LIMITED**  
**ADDITIONAL SHAREHOLDER INFORMATION**

**UNLISTED OPTIONS / WARRANTS (as at 30 September 2014)**

Expiry Date	Exercise Price	Number	# of Holders	Main Holders
28 Feb 15	A\$1.97	120,000	3	J & P Easton - 36,000 EZH Holdings (DE) Two LLC - 45,000 V-Efros – 39,000
05 Oct 14	C\$3.60	360,000	6	Your Care Pty Ltd - 180,000 M Elliott – 160,000 Rock Doc Pty Ltd – 216,000
30 Nov 15	C\$2.50	480,000	10	R Dunfield – 100,000
4 Jul 16	A\$3.19	200,000	1	W Satterfield – 200,000
5 Oct 14	C\$3.60	1,653,317	14	Cannacord Genuuity Corp - 341,900
4 Apr 15	C\$3.75	244,445	2	Haywood Securities Inc - 66,667 Jayvee & Co -177,778
31 Jul 15	C\$3.00	800,000	6	SCCP Solimar Holdings LP- 620,000
27 Sep 15	C\$2.50	1,333,335	10	none
9 May 16	C\$0.065	2,789,231	3	Canacol Energy Ltd – 1,769,231
19 Jun 16	C\$0.065	1,061,539	1	Rio Bravo Commercial Enterprises – 1,061,539

**CONVERTIBLE DEBENTURES (as at 30 September 2014)**

Maturity	Amount	No of Holders	Main Holders
31 July 2014	C\$4,000,000	8	SCCP Solimar Holdings LP – C\$3,100,000

**LEASEHOLD INTERESTS (as at 30 September 2014)**

Project	Interest
Kreyenhagen, San Joaquin Basin	84% - 100% Interest
Tejon Ranch, San Joaquin Basin	10% Interest