

ASX & Media Release

Solimar Energy Limited

Quarterly Activities Report and Appendix 5B

For the 3 months ended 30 June 2012



COMPANY OVERVIEW*

ASX / TSXV Codes	SGY (ASX) / SXS (TSXV)
Share Price (ASX)	A\$0.05 per share
Shares on Issue	462,142,098
Unlisted Options	102,043,985
Market Capitalization	\$A23.1m
Average Stock Turnover**	11.7m shares/month
	** Over past 12 months on ASX

* Figures as at 30 July 2012

DIRECTORS

Mr Frank Petruzzelli	Chairman
Mr John Begg	Chief Executive
Mr Mark Elliott	Non-Executive Director
Dr Charle Gamba	Non-Executive Director
Mr Jason Bednar	Non-Executive Director
Natural Gas Price*	US\$/MMBtu (SoCal Border Spot) \$3.09
Oil Price*	US\$/bbl (Midway Sunset Spot) \$98.05

HIGHLIGHTS

Capital Raising

- Raised C\$4.0m in July through the issue of a convertible debenture to sophisticated investors.

Paloma

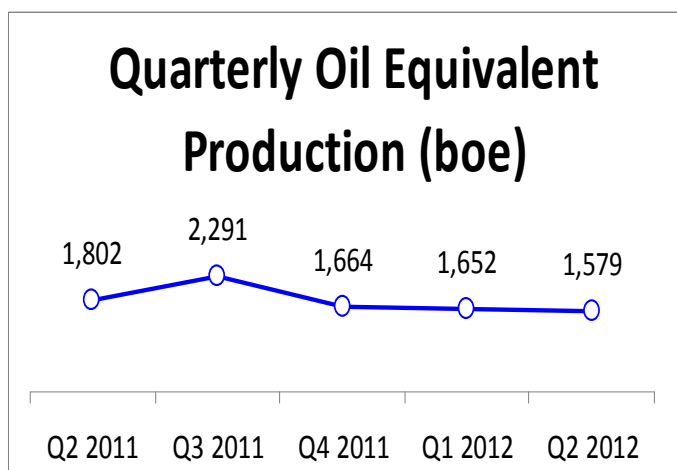
- Production testing operations at PD-1 continued in the Antelope Shale at modest rates of gas and oil from this vertical well that has not been fracc stimulated.
- PD-2 spud in May and drilled to a TD of 13,193 ft MD in early July with presence of encouraging oil and gas shows. Production testing set to begin in late July.
- PD-3 spud and drilled to a TD of 6,000 ft MD in May. Petrophysical evaluation indicates two potential gas zones, the first of which tested up to 968 MCFGPD. Further testing and resource evaluation is ongoing.

Kreyenhagen

- Received formal approval from the California regulatory authorities to conduct steam enhanced oil production testing. Contracted for the construction of a 20 MMBTU portable steam generator.
- In final preparatory stages for primary production testing of up to four pre-existing field wells in Q3 2012.
- Permitting in progress for in-field and on trend appraisal wells scheduled for Q4 drilling.

Sales Production and Revenue

- During the June quarter, a total of 1,579 barrels of oil were sold from the Maricopa Project.
- Solimar's share of oil revenue received in the June quarter (before royalties) was approximately A\$74,000.



Note: Production shown is production sold.

OPERATING ACTIVITIES

Overview

During the second quarter of 2012, Solimar has advanced in our oil prone projects in the San Joaquin Valley operating area.

At Kreyenhagen, Solimar has received formal approval to conduct steam enhanced oil recovery and has contracted for a portable steam generator. In conjunction with the steam pilot project, Solimar is in the final preparation stages to conduct production testing in the field. Permitting also continues for field and on trend appraisal wells scheduled for drilling in Q4 2012.

At Paloma, hydrocarbons have been discovered in all three wells drilled so far by the Paloma joint venture (Solimar 15% in the current wells and 15% to 25% in the gross 2,847 acre project) PD-1 continues to produce sustained flows of oil and gas from the regionally prolific Monterey Shale. PD-2 successfully drilled to TD and ran production liner in anticipation of production testing. PD-3 drilled to TD and has successfully tested gas from the first of two shallow gas sandstones.

Field appraisal and exploration

Kreyenhagen: 84% -100% Working Interest and Operator (San Joaquin Basin)

The Company received formal approval from the California regulatory authorities to conduct steam enhanced oil production testing of its 100% owned Kreyenhagen oil field project. This project contains a number of existing oil and gas discoveries that Solimar is in the process of appraising and redeveloping.

The Cyclic Steam Project Permit was attained within seven months of application after review by all applicable government departments lead by the California Division of Oil, Gas and Geothermal Resources (DOGGR) and following a period allowing for public comment.

Solimar will soon be commencing a two phase production testing program at Kreyenhagen where there is independently assessed, unrisked oil in place of up to 79 MMBBLS* net to the Company's working interest. The 13 to 18 degrees API gravity oil is contained in a shallow sandstone oil reservoir (the Temblor Sandstone) which has produced at unstimulated initial production rates of 1-21 BOPD in numerous vintage wells.

Solimar's testing program will utilise up to 4 suspended wells previously drilled in 2007. The first phase or "Cold Flow" testing program will involve zonal production testing using modern completion equipment and methods. A work over rig is currently being contracted for this phase of work. The second phase, for which the Permit to Steam is required, will involve alternating periods when steam is injected into the oil reservoir and allowed to "soak" followed by oil production periods. This cyclic steam or "Huff and Puff" test program will be initiated in late 2012 once the Company's 20MMBTU portable steam generation unit (for which construction has already been contracted) has been delivered and installed.

In addition to the Permit to Steam, the Company is also progressing the permitting of multiple, new well sites located to better define the extent of the existing oil discoveries and to provide detailed reservoir information for the three main oil productive horizons in the project area. These being the Temblor Sandstone which contains the heavy oil, the Avenal Sandstone within which light oil and gas has been discovered and the Kreyenhagen Shale. Potentially large volumes of in place light oil are present in the Kreyenhagen Shale within the Company's

extensive acreage holdings. The Kreyenhagen Shale regional oil play is attracting increasing major company interest in the area and will be the subject of a future dedicated evaluation program by Solimar.

*Reference: Resource Assessment of Certain P&NG Holdings in the Kreyenhagen Area for Solimar Energy Limited (as of 31 October, 2011) - By Sproule Unconventional Limited. This report was highlighted in a release to the ASX and Canada on 18 November, 2011. A copy is on Solimar Energy's website under "Investor Centre" and "Resource Reports".

Paloma: 15% - 25% Working Interest (San Joaquin Basin)

During the quarter the PD-2 appraisal well reached total depth of 13,931 feet and has been completed with a conventional 7 inch liner for production testing of several apparent pay zones, which includes each of the Monterey Formation zones (Fruitvale Shale, Lower Stevens Sandstone and Antelope Shale, portions of which were all cored in the well) identified in the Paloma Deep -1 discovery well. A new zone called the McDonald Sandstone was found at approximately 13,800 feet after deepening of the well due to continuing strong oil and gas shows being recorded while drilling. It is anticipated that production testing will begin in late July 2012.

A shallow appraisal well, PD-3, also spud in the quarter and reached a target depth of 6,000 feet targeting San Joaquin and Etchegoin Formations sandstones. Two potential gas bearing zones were identified from the petrophysical evaluation. An initial production test of one zone flowed up to 968 MCF of gas per day. This is to be followed by a more comprehensive test designed to confirm the size of the resource and potential for long term deliverability. That test is expected to be complete before the end of July.

PD-1 remained on production testing from the Lower Antelope Shale during the quarter. Flow rates have stabilized at approximately 7 BOPD (32 API) and 20 MCFGPD of gas per day; from a total of 22 barrels of fluid per day. The rate, oil gravity, GOR and 32% oil cut are encouraging given that the flow is coming from a vertical section that has not been subject to fracture stimulation. Horizontal well completions coupled with various stimulation techniques can be expected to significantly enhance the flow rate. Analysis of the test results and of reservoir core retrieved from PD-2 will provide critical input to determining the potential for commercial development of the resource. Once testing of the Lower Antelope is finalised the joint venture will proceed with testing of a number of shallower zones of interest encountered in the well during Q3 2012.

The Company also revised its ownership at Paloma to better match its objectives and provide funding with the two wells (PD-2, PD-3) the followed the drilling of PD-1. Solimar agreed a 15% working interest on the leases that are currently being drilled and which covered 1,405 gross acres and retained a 25% working interest in eastern lease acreage that represented a further 1,442 gross acres.

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

The Company has been granted a one year lease extension on the acreage, which includes receiving access to the 3D seismic data held over the area. Geological and geophysical studies of the shallow gas prone area are expected to begin in Q1 2013.

Tejon Footwall: 75% Working Interest (San Joaquin Basin)

An independent assessment of the area prospectivity was completed during the quarter to further aid in derisking the 3D seismic defined leads and prospects in the acreage.

Bayswater (Zodiac): 1.13% Working Interest (San Joaquin Basin)

The 1-10 horizontal well is shut in pending analyses of production and pressure build-up data. Although completion effectiveness and flow test results were less than anticipated, the recovery of oil from the Kreyenhagen Shale in a non-structural position is significant for the regional implications for expanding the play beyond well-defined structural closures. This is illustrated by the recent drilling activity in the immediate area from both AERA and California newcomer Hess.

Guijarral Hills: 60% Working Interest and Operator

Geologic and engineering studies continue of the 76-33 well data and test results, in relation to regional mapping.

Jacalitos: 75% Working Interest and Operator (San Joaquin Basin)

This project is contiguous with the Company's greater Kreyenhagen project and is being re assessed on the basis of the extension of the play types identified in that acreage.

Kettleman Middle Dome: Back in right to 10% Working Interest (San Joaquin Basin)

Solimar is reviewing well results and regional mapping in regard to participation in the 10% back-in.

Production

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

During the June quarter 2012, a total of 1,579 barrels of oil were sold from the Maricopa Project. The average price of oil received from Kern Oil Refinery in the quarter was about US\$105/bbl.

Solimar Energy's share of revenue received in the June quarter (before royalties) was approximately A\$74,000.

CORPORATE ACTIVITIES

Financing

During the quarter Solimar completed a private placement of 80 subscription receipts at an issue price of C\$50,000 per subscription receipt (a "Subscription Receipt"), to raise gross proceeds of C\$4 million (the "Offering"). On satisfaction of certain conditions, including shareholder approval and approval of 2/3 of the existing holders of convertible debentures of the Company, each Subscription Receipt will be exchangeable, for no additional consideration, into one C\$50,000 convertible debenture (a "Debenture"). As at the time of this report all conditions had been satisfied.

Each holder of a Debenture also received, for no additional consideration, 250,000 share purchase warrants (the "Warrants") per Debenture. Each Warrant entitles the holder to acquire one common share of the Company (a "Common Share") at a price of C\$0.12 up to July 31, 2015. The Company will have the right to accelerate the expiry date of the Warrants to 30 days from the date of notice once the volume weighted average trading share price ("VWAP") of the Common Shares is equal to, or greater than, C\$0.25 per share on the TSX Venture Exchange ("TSX-V") for 21 consecutive trading days.

The net proceeds of the Offering are intended to be used to fund the Company's capital expenditures in California, mainly for the Kreyenhagen project, and general corporate purposes. The Offering was largely subscribed for by Second City Capital Partners, a fund controlled by Mr. Samuel Belzberg, or its nominees, and also included other institutional and sophisticated investors.

Each Subscription Receipt entitled the holder to receive, without payment of additional consideration, one Debenture and 250,000 Warrants following the approval of the issue of Debentures and Warrants by Solimar shareholders at a meeting of shareholders which was held on 23 July 2012 and the approval of the issue of Debentures by 2/3 of the existing holders of convertible debentures of the Company. In the event shareholders did not approve the Offering by August 10, 2012 or the other conditions were not satisfied, the funds, together with any interest earned thereon, would be returned to the subscribers of Subscription Receipts without penalty or deduction and the Subscription Receipts cancelled.

In total, 80 Debentures would be issued upon exchange of the Subscription Receipts. The Debentures will have a coupon interest rate of 11% per annum, payable quarterly in arrears, at the election of the Company, in cash or through the issuance of Common Shares at a price equal to a 10% discount to the VWAP of the Common Shares on the TSX-V for the 10 trading days immediately preceding the applicable quarterly interest payment date.

The Debentures will mature on December 31, 2014 (approximately 2.5 years from their date of issuance). However, if a National Instrument 51-101 Standards of Disclosure For Oil and Gas Activities compliant report is not received by September 30, 2013, which discloses either gross contingent resources for the Kreyenhagen project of 5 million barrels of oil equivalent (2.5 MMBOE net amount to the Company) or probable reserves for all other assets of at least 5 MMBOE, the maturity date will be December 31, 2013. References to "Maturity Date" hereinafter refer to either December 31, 2014 or December 31, 2013, as applicable.

The Debentures will be direct obligations of the Company ranking (i) equally with each other, (ii) *pari passu* with the existing outstanding C\$2,800,000 principal amount of convertible unsecured debentures issued in February 2012, and (iii) senior in right of payment and priority to any existing and future indebtedness and financial obligations and / or liabilities subject to the exceptions to be set out in the debenture indenture.

The Company will have the right to accelerate the Maturity Date of the Debentures to 30 days from the date of notice once the VWAP of the Common Shares is equal to, or greater than, C\$0.20 per share on the TSX-V for 21 consecutive trading days.

The Company will have the right to repay the Debentures 12 months from the Maturity Date at a 5% premium to the Offering price ("Early Prepayment"). If the Company elects for Early Prepayment, the Company must give Debentureholders 60 days' notice and will be subject to minimum prepayment amounts.

The Debentures will be convertible into Common Shares at the option of the Debentureholder at any time prior to the close of business on the Maturity Date at a conversion price equal to C\$0.10 per Common Share.

On the Maturity Date, any Debentureholder may, at its option, require the Company, on not more than 60 days and not less than 40 days prior notice and subject to regulatory approval (if necessary), to satisfy its obligation to repay each C\$50,000 Debenture by issuing and delivering that number of freely tradeable Common Shares obtained by dividing the principal amount of the Debentures outstanding (or applicable portion thereof) by 95% of the VWAP of the Common Shares on the TSX-V for the 20 consecutive trading days ending five trading days preceding the Maturity Date.

Eligible finders or lenders will be paid a commission or set up fee equal in the aggregate to 4% of the aggregate gross proceeds raised pursuant to the Offering.

On 5 April 2012 Solimar announced that it had completed a C\$1.1 million Private Placement (the "Placement").

Solimar raised the C\$1.1 million (before costs) in funds through the issue of 12,222,222 Units at a price of C\$0.09 (9 Canadian cents) per Unit to two (2) sophisticated investors based in Canada and Switzerland. Each Unit consists of one (1) ordinary share in Solimar ("Share") and one-half (1/2) of one share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire one (1) Share for an exercise price of C\$0.15 (15 Canadian cents) until 5.00pm (Calgary time) on the date that is three (3) years from the date the Warrants are issued.

General Meeting

The Company held a General Meeting on 23 July 2012. All resolutions put to shareholders were passed, including approval of the issue of the convertible debentures and associated warrants.

Solimar Energy Limited – Summary of Quarterly Sales Production

Quarterly Sales	Sept. Qtr 2011	Dec. Qtr 2011	Mar. Qtr 2012	Jun. Qtr 2012
Oil (Barrels)	2,291	1,664	1,652	1,579

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

Yours sincerely



John Begg
Chief Executive
Solimar Energy Limited

Forward Looking Statements

This announcement contains forward looking statements that are subject to risk factors associated with oil and gas businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause the actual results to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserves and resources estimates, loss of market, industry competition, environmental risks, physical risks, legislative changes, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

SOLIMAR ENERGY LIMITED

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Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

SOLIMAR ENERGY LTD

ABN

42 112 256 649

Quarter ended ("current quarter")

30 JUNE 2012

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter	Year to date (12 months)
		\$A'ooo	\$A'ooo
1.1	Receipts from product sales and related debtors (see Note B Below)	53	375
1.2	Payments for (a) exploration & evaluation	(418)	(5,423)
	(b) development	(76)	(78)
	(c) production	(32)	(191)
	(d) administration	(714)	(4,579)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1	22
1.5	Interest and other costs of finance paid	-	(37)
1.6	Income taxes paid	-	-
1.7	Other – Farm In Payments	-	22
	Net Operating Cash Flows	(1,186)	(9,889)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(11)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	-	(11)
1.13	Total operating and investing cash flows (carried forward)	(1,186)	(9,900)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,186)	(9,900)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,045	6,067
1.15	Costs of issue and borrowings	(74)	(499)
1.16	Proceeds from borrowings	-	3,295
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	971	8,863
	Net increase (decrease) in cash held	(215)	(1,037)
1.20	Cash at beginning of quarter/year to date	515	1,380
1.21	Exchange rate adjustments to item 1.20	3	(40)
1.22	Cash at end of quarter (Note A)	303	303

NOTES

- A. Subsequent to 30 June 2012 a placement of convertible debentures of C\$4m before costs was concluded.
- B. Receipts from Maricopa oil production for the June quarter include partner's net share of receipts not allocated against their share of joint venture expenses or as yet paid over to them. The variance is expected to be no greater than A\$2,000.

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

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	67
1.24 Aggregate amount of loans to the parties included in item 1.10	Nil
1.25 Explanation necessary for an understanding of the transactions	
Consulting Fees paid to the Executive Director (Chief Executive). Office rent paid to a company associated with a director. Director Fees to Non-executive Directors.	

Non-cash financing and investing activities

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

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,300
4.2 Development	10
4.3 Production	25
4.4 Administration	1,350
Total (Note A)	2,685

- A. Expenditures in the next quarter may be further impacted (reduced) as the Company's rationalisation program proceeds.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	303	515
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	303	515

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Paloma (on certain leases)		25%	15%
6.2 Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	n/a			
7.2				
7.3	460,798,137	460,798,137		
7.4				
7.5	56		C\$50,000 (C\$2.8m)	10% p.a Maturity Date 31 Dec 2013
7.6				
7.7	3,000,000 13,900,000 5,000,000 3,200,000 1,500,000 9,000,000 41,332,874 14,000,000 6,111,111 Options convert on 1:1 basis		<i>Exercise price</i> 7.88 cents 18 cents 18 cents 12.75 cents 12.75 cents 14.4 cents (CAD) 14.4 cents (CAD) 15 cents (CAD) 15 cents (CAD)	<i>Expiry date</i> 28 February 2015 1 July 2014 1 July 2014 1 July 2014 1 June 2013 5 October 2014 5 October 2014 10 February 2014 4 April 2015
7.8	6,111,111		15 cents (CAD)	4 April 2015
7.9				
7.10	5,000,000 4,000,000 11,125,000		9.35 cents 12.75 cents 12.75 cents	1 June 2012 1 June 2012 1 June 2012
7.11				
7.12				

+ See chapter 19 for defined terms.

Compliance statement

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



Company Secretary

Date: 31 July 2012

Notes

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

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+ See chapter 19 for defined terms.