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Manager Announcements  
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Australian Securities Exchange  
10<sup>th</sup> Floor, 20 Bond Street  
SYDNEY NSW 2000

Via electronic lodgement

## **Solimar to drill Paloma field appraisal well – 33 million barrel target**

### **Highlights**

- **Targeting recoverable resources of 33 million barrels of oil equivalent**
- **Solimar increasing interest to minimum 17.5%, possible increase to 25% pending ;**
- **Rig contracted and due onsite late July;**
- **Project located on one of the large anticline fields in the heart of the oil prolific southern San Joaquin Basin;**
- **Appraising the western closure of 133 million barrels oil equivalent Paloma oil and gas field;**
- **Targets zones within field closing contour defined by 3D seismic that was acquired post original field development;**
- **Multiple stacked sandstone (conventional) and fractured oil shale (unconventional) reservoir targets;**
- **All conventional targets characterised by seismic amplitude anomalies believed to indicate hydrocarbon saturations and potentially zones of good reservoir quality.**

Solimar Energy Limited (Solimar – ASX Code : SGY) is pleased to announce that the Nabors Rig # 710 has been contracted to drill the Paloma Deep - 1 well and is expected onsite in late July. Commencement of drilling is likely in early August.

The Paloma West project is operated by Neon Energy and covers some 1400 acres all within the structural closure of the Paloma oil and gas field which has produced some 61 million barrels of light oil and 432 billion cubic feet of gas (133 MMBOE) since discovery in the 1930's. The Paloma field is a large anticline structure some 12 miles long by 4 miles wide.

The well location has been chosen using 3D seismic which was acquired after the prior development of the field. The Paloma Deep -1 will be the first appraisal well drilled on the field using 3D to help identify favourable reservoir trends within the field closure.

There are seven (7) individual, stacked reservoir targets in the well commencing at approximately 10,000 feet. The well has a planned total depth of 15,500 feet and will take up to 2 months to drill.

All the targeted sandstone and shale reservoirs are part of the Miocene age Monterey Formation, the famous oil source and reservoir formation in the southern San Joaquin Basin. The estimated unrisked in place hydrocarbon volumes are up to 300 million barrels OPI and based on an 11% recovery factor (equivalent to the historic recovery from the main producing reservoir of the Paloma field) the targeted recoverable resource is 33 MMBOE.

The well will drill through a series of shallower Pliocene mostly dry gas reservoirs on the way down that are expected to be depleted by historic production. Some of these sand reservoirs are equivalent to the San Joaquin Formation gas sands that Solimar is attempting to develop at its SELH gas project further to the northwest in the basin. The shallow sands produced 23 Billion cubic feet (Bcf) of gas at Paloma.

The first reservoir to be evaluated will be in the Antelope Shale member of the Monterey which envelopes the main reservoir of the field, the Paloma or Upper Stevens Sandstone. This sand has produced 58 mmbbls and 415 Bcf and is likely to be at least partially depleted at the well location and is therefore considered a secondary target.

All the Monterey Formation sandstone reservoirs including the Paloma Sandstone were originally formed as submarine fans derived from the NE and deposited into the deep water basin prevalent in the San Joaquin Basin during the Miocene. The anticlinal structure which traps the hydrocarbons was formed much later and has a different, NW – SE orientation. So there has been varying sand quality encountered across the field which affected the historic field development, particularly for the Lower Stevens Sandstone reservoirs which were not discovered until 1973.

Only three wells have penetrated to the deeper reservoir levels in the west half of the field area (the most recent being some 26 years ago in 1985) each encountering extensive live oil and gas shows and with two wells flowing oil and gas at low rates.

Solimar believes that the 3D seismic data and modern drilling and completion technologies provide an excellent chance for a successful appraisal of the sandstone reservoirs in the western Paloma oil field. Unlike most of the original field wells that were drilled using water based muds that can react with clays in the reservoir reducing permeability ( or ability to flow), the Paloma Deep - 1 will be drilled with a synthetic oil based mud to reduce drill time and minimise formation damage.

With the exception of one old vertical well recompleted for production in the Antelope Shale in 1993 the fractured oil shale potential of the acreage remains untapped. In the context of the escalating production and re development of equivalent rocks in other fields in the area, the fractured oil shales present an exciting opportunity for the new joint venture.

Solimar is increasing its interest via farmin with Neon. The increased position will either be a minimum 17.5% with 25% targeted and pending closure of arrangements with a third party. Once the level of increase has been finalised this will be confirmed via a further announcement by the Company.

The increased position in the project will be subject to any consents to assignment of the interests that may be required by the underlying lessors and to completion of Solimar's previously announced private placement to raise A\$7 million.

The dry hole cost of the Paloma Deep -1 is estimated at US\$4.9 million. Solimar will be funding its share from cash reserves and the proceeds of the placement.

**Commenting on the drill program Solimar CEO John Begg said;**

*“As at Kreyenhagen and per published strategy Solimar has increased its position in a project with high impact potential in the Company’s core area, the San Joaquin Basin. The Paloma deep -1 is an ambitious drill program designed to evaluate a series of targets within part of a known field where the reservoirs have not been adequately tested by the historic drilling. Through this first well and anticipated follow up programs the joint venture will have the advantage of first application of modern, off the shelf technologies and industry learning to exploit the asset .”*

ASX listed partners are:

Solimar Energy LLC	17.5%*
Neon Energy Limited (ASX: NEN)	82.5%

\* Minimum Interest after farmin



John Begg  
**Chief Executive**  
Solimar Energy Limited

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**COMPETENT PERSONS STATEMENT:** The information in this report has been reviewed and signed off by John Begg BSc who is a petroleum geologist with over 30 years of relevant experience within the oil and gas sector.

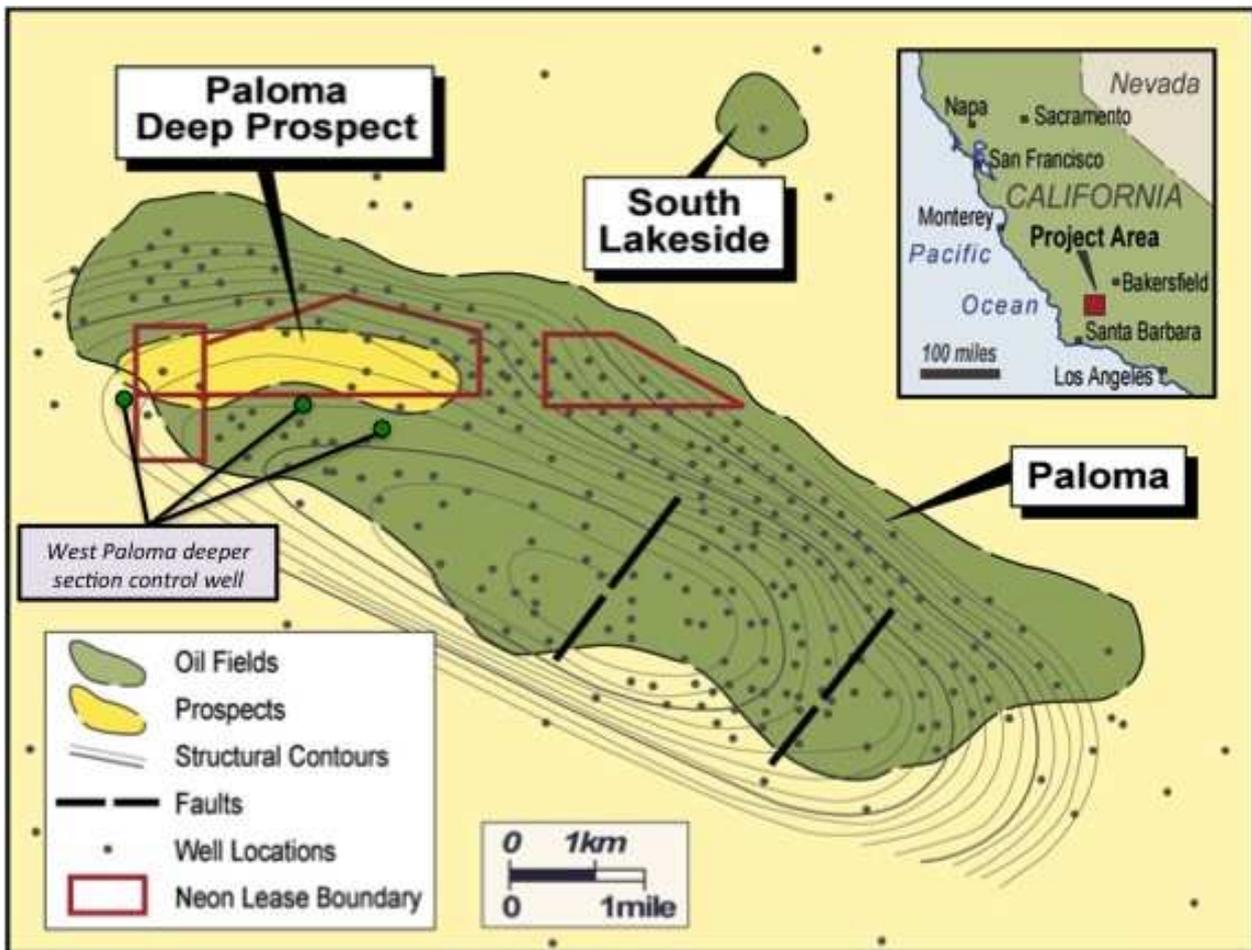


Figure 1: Project location and the Paloma oil and gas field

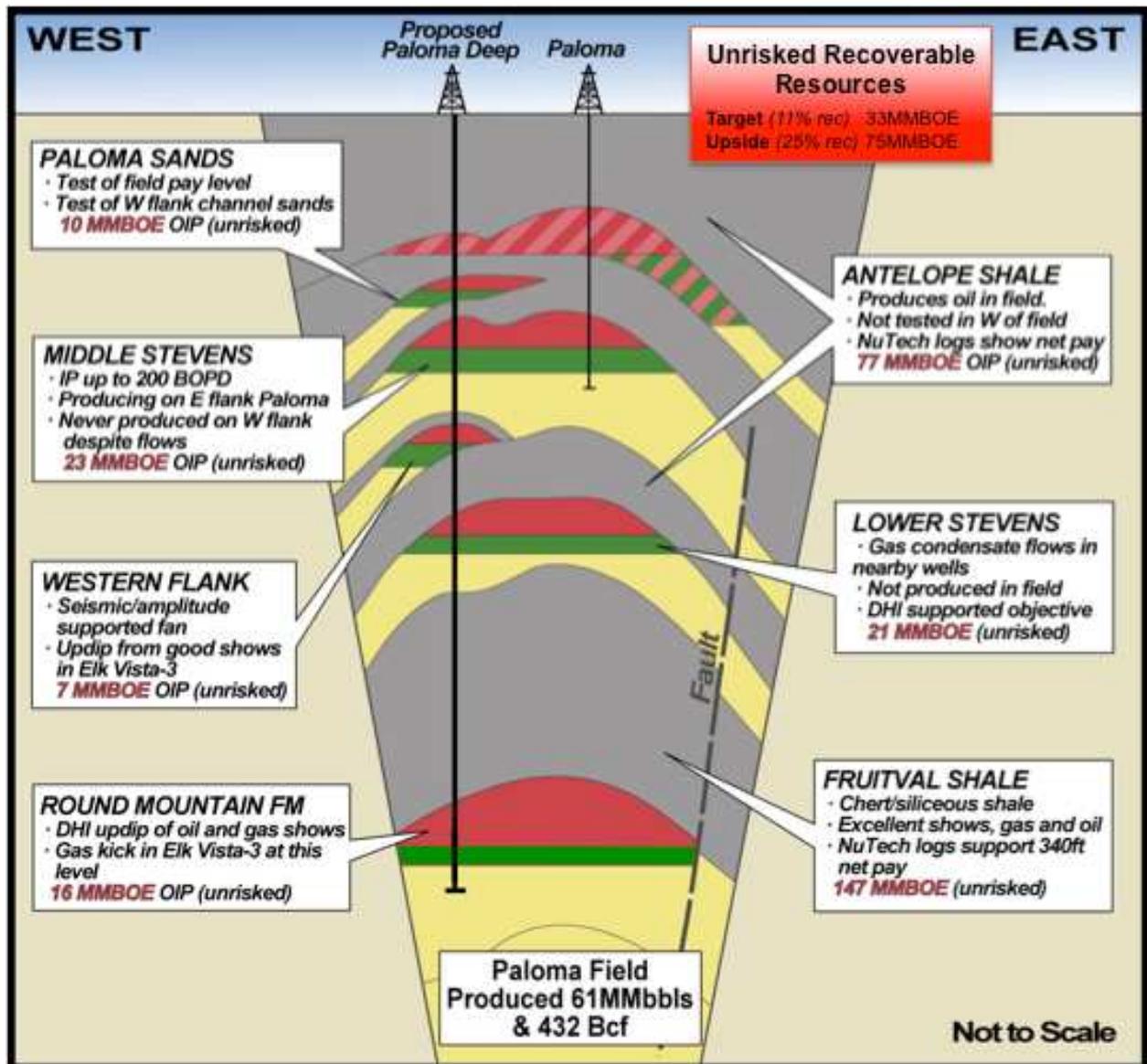


Figure 2: Schematic cross section showing Paloma Deep proposed drill path in the Paloma oil and gas field