



## **ANNUAL INFORMATION FORM**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014**

**OCTOBER 31, 2014**

*Statements in this Annual Information Form may be viewed as forward-looking statements. Such statements involve risks and uncertainties that could cause actual results to differ materially from those projected. There are no assurances the Company can fulfill such forward-looking statements and the Company undertakes no obligation to update such statements. Such forward-looking statements are only predictions; actual events or results may differ materially as a result of risks facing the Company, some of which are beyond the Company's control. The forward-looking statements or information contained in this Annual Information Form are made as of the date hereof and the Company undertakes no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.*

## TABLE OF CONTENTS

GLOSSARY .....	2
ABBREVIATIONS AND CONVERSION .....	6
INFORMATION.....	7
CURRENCY EXCHANGE RATES .....	7
FORWARD LOOKING STATEMENTS .....	8
NAME AND INCORPORATION.....	10
GENERAL DEVELOPMENT OF THE BUSINESS .....	11
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION .....	19
RISK FACTORS .....	23
DIVIDENDS.....	33
DESCRIPTION OF CAPITAL STRUCTURE .....	34
MARKET FOR SECURITIES.....	36
PRIOR SALES .....	36
ESCROWED SECURITIES.....	37
DIRECTORS AND OFFICERS .....	37
PROMOTERS.....	40
AUDIT COMMITTEE INFORMATION .....	40
LEGAL PROCEEDINGS AND REGULATORY ACTIONS .....	42
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	42
TRANSFER AGENT AND REGISTRARS .....	42
MATERIAL CONTRACTS.....	42
INTEREST OF EXPERTS .....	42
ADDITIONAL INFORMATION .....	43

## SCHEDULES

SCHEDULE A	Report of Management and Directors on Oil and Gas Disclosure (Form 51-101F3)
SCHEDULE B	Audit Committee Terms of Reference

## GLOSSARY

Certain terms and abbreviations used in this Annual Information Form are defined below:

**"ABCA"** means the *Business Corporations Act* (Alberta);

**"AGM"** means an annual general meeting of Shareholders;

**"ASX"** means ASX Limited (ABN 98 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX Limited;

**"Canadian GAAP"** or **"GAAP"** means: (i) with respect to financial years beginning after January 1, 2011, the generally accepted accounting principles in Canada of publically accountable enterprises; and (ii) with respect to financial years beginning before January 1, 2011, the generally accepted accounting principles, in each case as set by the Canadian Institute of Chartered Accountants and as permitted by National Instrument 52-107 - *Financial Disclosure*, for the preparation of financial statements;

**"Company"** or **"Solimar"** means, unless the context indicates or requires otherwise, Solimar Energy Limited and its subsidiaries;

**"Contingent Resource"** means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status;

**"Corporations Act"** means the Corporations Act 2001, (Cth) (Australia);

**"development costs"** means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including applicable operating costs or support equipment and facilities and other costs of development activities, are costs incurred to:

- a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;
- b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;
- c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- d) provide improved recovery systems;

**"development well"** means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive;

**"exploration costs"** means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as **"prospecting costs"**) and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as **“geological and geophysical costs”**);
- b) costs of carrying and retiring unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence and the maintenance of land and lease records;
- c) dry hole contributions and bottom hole contributions;
- d) costs of drilling and equipping exploratory wells; and
- e) costs of drilling exploratory type stratigraphic test wells;

**“forecast prices and costs”** means future prices and costs that are:

- a) generally accepted as being a reasonable outlook of the future; and
- b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the reporting issuer is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a);

**“future income tax expenses”** means future income tax expenses estimated (generally, year-by-year):

- a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, between oil and gas activities and other business activities;
- b) without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income;
- c) taking into account estimated tax credits and allowances (for example, royalty tax credits); and
- d) applying to the future pre-tax net cash flows relating to the reporting issuer’s oil and gas activities the appropriate year-end statutory tax rates, taking into account future tax rates already legislated;

**“future net revenue”** means the estimated net amount to be received with respect to the development and production of reserves (including synthetic oil, coal bed methane and other non-conventional reserves) estimated using constant prices and costs or forecast prices and costs;

**“gross”** means:

- a) in relation to the Company’s interest in production or reserves, its “company gross reserves”, which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company;
- b) in relation to wells, the total number of wells in which the Company has an interest; and
- c) in relation to properties, the total area of properties in which the Company has an interest;

**“IFRS”** means International Financial Reporting Standards;

**“Jacalitos Project”** means the leased 516 gross acres (approximate) in and around the Jacalitos Nose in the San Joaquin Basin, California, the lease expired on 30 September 2014;

**"Kreyenhagen Project"** means the leased 10,876 gross and net acres (approximate) in and around the Kreyenhagen Field, Fresno and Kings Counties, California, which encompass the entire 800 acre Kreyenhagen Ranch Lease and the Kreyenhagen Field administrative area;

**"Kreyenhagen Ranch Lease"** means the leased 9,986 acres (approximate) in the Kreyenhagen family owned Kreyenhagen Ranch, Fresno and Kings Counties, California, which encompasses the entire 800 acre Kreyenhagen Field administrative area;

**"Maricopa Project"** means the 120 gross acres leased in the Midway Sunset Field, Kern County, California. The property was sold effective January 31, 2013;

**"MDB"** means MDB Taxation and Business Advisors Pty Ltd.;

**"net"** means:

- a) in relation to the Company's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interest in production or reserves;
- b) in relation to the Company's interest in wells, the number of wells obtained by aggregating the Company's working interest in each of its gross wells; and
- c) in relation to the Company's interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

**"Net Profit Royalty"** means the royalty payable on net profits which is calculated by subtracting all operating costs and fuel costs from the gross revenue;

**"NI 51-101"** means National Instrument 51-101 – *Standard of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

**"operating costs"** or **"production costs"** means costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities;

**"Ordinary Shares"** means the ordinary shares in the capital of the Company. The Ordinary Shares are listed on the ASX under the symbol "SGY" and on the TSXV under the symbol "SXS";

**"Paloma Project"** means the leased 2,400 gross acres (approximate) located in the Paloma oil field in Kern County, California. Solimar participated in drilling three wells at the project and subsequent to the 2013 financial year end has relinquished its interests in the project;

**"production"** means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and gas;

**"property acquisition costs"** means costs incurred to acquire a property (directly by purchase or lease, or indirectly by acquiring another corporate entity with an interest in the property), including:

- a) costs of lease bonuses and options to purchase or lease a property;
- b) the portion of the costs applicable to hydrocarbons when land including rights to hydrocarbons is purchased in fee; and
- c) brokers' fees, recording and registration fees, legal costs and other costs incurred in acquiring properties;

**"reserves"** are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on (a) analysis of drilling, geological, geophysical, and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates being “proved reserves”, “probable reserves” and “possible reserves”;

“**Shareholder**” means a holder of Ordinary Shares;

“**Tejon project**” means the 487 gross acres (49 net acres to the Company) held in the Southern San Joaquin Basin, California.

“**TSXV**” means TSX Venture Exchange Inc.;

“**undiscovered oil in place resources**” means that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as “prospective resources”, the remainder as “unrecoverable”.

“**well abandonment costs**” means costs of abandoning a well (net of salvage value) and of disconnecting the well from the surface gathering system. They do not include costs of abandoning the gathering system or reclaiming the wellsite; and

“**working interest**” means the net interest held in an oil and natural gas property which normally bears its proportionate share of the costs of exploration, development and operations as well as any royalties or other production burdens.

## ABBREVIATIONS AND CONVERSION

In this Annual Information Form, the abbreviations set forth below have the following meanings:

### Oil and Natural Gas Liquids

bbl	barrel
Mbbl	one thousand barrels
MMbbl	one million barrels
bbl/d	barrels per day
bopd	barrels of oil per day
NGL	natural gas liquids

### Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMbtu	million British Thermal Units
GJ	gigajoule

### Other

BOE or boe	barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
boe/d	barrels of oil equivalent per day
McfGE	1,000 cubic feet of gas equivalent on the basis of 6 McfGEs to 1 bbl of crude oil. McfGEs may be misleading, particularly if used in isolation. A McfGE conversion ratio of 6 McfGEs to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
M\$	thousands of dollars
MM\$	millions of dollars
km <sup>2</sup>	square kilometres
mPa-s (cP)	MilliPascal second, a unit of viscosity that is equivalent to the centiPoise (cP)
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28°API or higher is generally referred to as light crude oil

### Conversion Table

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To convert from	To	Multiply by
Mcf	cubic meters ("m <sup>3</sup> ")	28.174
cubic feet	m <sup>3</sup>	0.028
m <sup>3</sup>	cubic feet	35.494
bbl	m <sup>3</sup>	0.159
m <sup>3</sup>	bbl	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres ("km")	1.609
km	miles	0.621
acres	hectares	0.4047
hectares	acres	2.4710

## INFORMATION

The information in this Annual Information Form is stated as at June 30, 2014, unless otherwise indicated. For an explanation of the capitalized terms and expression and certain defined terms, see “*Glossary*” and “*Abbreviations and Conversion*”.

In all cases where percentage figures are provided, such percentages have generally been rounded to the nearest whole number.

### CURRENCY EXCHANGE RATES

Unless otherwise indicated, all references to “US\$” in this Annual Information Form are to United States dollars, references to “C\$” are to Canadian dollars and references to “A\$” are to Australian dollars.

The following tables set forth the high, low and average rates of exchange for one United States dollar and one Australian dollar, expressed in Canadian dollars, during the periods noted, and based on the Bank of Canada noon spot rate of exchange.

<u>Canadian Dollar per U.S. Dollar</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
<b>Year ended June 30</b>			
<b>2014</b> .....	0.9768	0.8888	0.9342
<b>2013</b> .....	1.0527	0.9629	1.0063
<b>2012</b> .....	1.0617	0.9370	1.0016

<u>Canadian Dollar per Australian Dollar</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
<b>Year ended June 30</b>			
<b>2014</b> .....	1.0851	0.9667	1.0174
<b>2013</b> .....	1.0696	0.9543	1.0308
<b>2012</b> .....	1.0754	0.9973	1.0354

On October 30, 2014, the Bank of Canada noon spot exchange rate for the conversion of United States dollars into Canadian dollars was US\$1.00 equals C\$0.8934 and the Bank of Canada noon spot exchange rate for the conversion of Australian dollars into Canadian dollars was A\$1.00 equals C\$0.9877.

The following table sets forth the high, low and average rate of exchange for one United States dollar expressed in Australian dollars, during the periods noted, and based on the Reserve Bank of Australia close of business spot rate of exchange.

<u>Australian Dollar per U.S. Dollar</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
<b>Year ended June 30</b>			
<b>2014</b> .....	0.9672	0.8726	0.9187
<b>2013</b> .....	1.0593	0.9202	1.0271
<b>2012</b> .....	1.1055	0.9500	1.0319

At close of business on October 30, 2014, the Reserve Bank of Australia exchange rate for the conversion of U.S. dollars into Australian dollars was US\$1.00 equals A\$0.8768.



## FORWARD LOOKING STATEMENTS

Statements Annual Information Form that are not current or historical factual statements may constitute “forward-looking information” within the meaning of applicable securities laws. The forward-looking information reflects management of the Company’s current expectations regarding future results, performance or achievements and speaks only as of the date of this Annual Information Form. When used in this Annual Information Form, forward-looking information can be identified by such words as “may”, “will”, “expect”, “believe”, “plan”, “project”, “anticipate”, “intend”, “estimate” and other similar terminology. Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed in or implied by such information. Specific forward looking information contained in this Annual Information Form includes, among others, statements regarding:

- the continuing event of default regarding the June Debentures related to the Company’s failure to pay the principal and interest owing thereon;
- the size and quantity of oil and natural gas reserves;
- the performance characteristics of the Company’s oil and natural gas properties;
- estimated present value of future net revenue associated with reserves;
- the use of proceeds;
- drilling plans and the timing and location thereof;
- plans for exploration and development;
- plans for seismic acquisition and surveys;
- timing of development of undeveloped reserves;
- production capacity and levels, and the timing of achieving such capacity and levels;
- relationship with local and regional stakeholders;
- the level of expenditures for compliance with environmental regulations;
- projections of market prices and costs;
- supply and demand for oil and natural gas and commodity prices;
- expectations regarding the ability to raise capital;
- capital expenditure programs;
- growth strategies and opportunities;
- treatment under governmental regulatory regimes and tax laws;
- the Company’s tax horizon; and
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses.

With respect to forward looking information contained in this Annual Information Form, the Company has made assumptions regarding, among other things:

- the June Debenture holders continuing refrain from instructing the trustee to enforce payment by the Company of the principal and interest owing on the June Debentures;
- the geography of the areas in which exploration and development activities have been conducted;
- the Company’s ability to obtain qualified staffing and equipment in a timely and cost efficient manner to meet its demand;
- the timing for receipt of required regulatory approvals to proceed with future projects;
- the legislative and regulatory environment;
- unpredictable changes to the market prices for oil and gas;
- the impact of increasing competition; and
- the Company’s ability to obtain financing on acceptable terms.

Many of the foregoing assumptions are subject to change and are beyond the Company’s control.

Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the forward looking information include:

- general economic conditions in Australia, Canada, the U.S. and globally;
- industry conditions, including fluctuations in the prices of oil and natural gas;
- the need for, and ability to obtain, funding;
- limited operating and earnings history;
- reliance on key personnel;
- currency fluctuations;
- changes in, or the introduction of new, government regulations relating to the business of the Company;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems and other difficulties in producing reserves;
- the need to obtain required approvals from regulatory authorities;
- stock market volatility;
- unforeseen title defects;
- liabilities inherent in oil and natural gas operations;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands, skilled personnel and supplies;
- geological, technical, drilling, processing and transportation problems;
- changes in tax laws and incentive programs relating to the oil and gas industry;
- unpredictable weather conditions;
- changes in the royalties applicable to the Company;
- risks associated with foreign operations and the use of foreign subsidiaries;
- fluctuations in foreign currency and exchange rates; and
- the other factors referred to under "*Risk Factors*".

The information contained in this Annual Information Form under the heading "*Risk Factors*" identifies additional factors that could affect the Company's operating results and performance.

Although management of the Company believes that the assumptions underlying and the expectations reflected in the forward-looking information are reasonable, significant risks and uncertainties are involved in such information. Management can give no assurances that its assumptions, estimates and expectations will prove to have been correct. Forward-looking information should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. Many factors that are beyond the Company's control could cause actual results to differ materially from the results discussed in the forward-looking statements.

When considering forward-looking information, investors should ensure that the preceding information, the risk factors and the other contents of this Annual Information Form are all carefully considered.

The forward-looking statements included in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement and are made as of the date of this Annual Information Form or the applicable document incorporated by reference herein, as the case may be. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

## NAME AND INCORPORATION

### Solimar Energy Limited

On December 17, 2004, the Company was registered in Western Australia under the name "Livingstone Petroleum Ltd" ("**Livingstone Petroleum**") and incorporated under the Corporations Act as a public company. Following its initial public offering, Livingstone Petroleum was admitted to the Official List of the ASX on September 12, 2005 under the trading symbol "LPL". Official Quotation of LPL securities commenced on September 14, 2005.

In July 2005, Westcoast Land Petroleum Pty Ltd was registered in Victoria, Australia and incorporated under the Corporations Act. On May 12, 2006, Westcoast Land Petroleum Pty Ltd changed its name to Solimar Energy Pty Ltd.

On May 10, 2007, Livingstone Petroleum entered into an implementation agreement to acquire Solimar Energy Pty Ltd. The shareholders of Livingstone Petroleum approved the implementation agreement and a name change to Solimar Energy Limited at a general meeting of shareholders held on June 29, 2007. Pursuant to the implementation agreement, Solimar Energy Pty Ltd.'s shareholders of record received one Ordinary Share for every 20 common shares in the capital of Solimar Energy Pty Ltd.

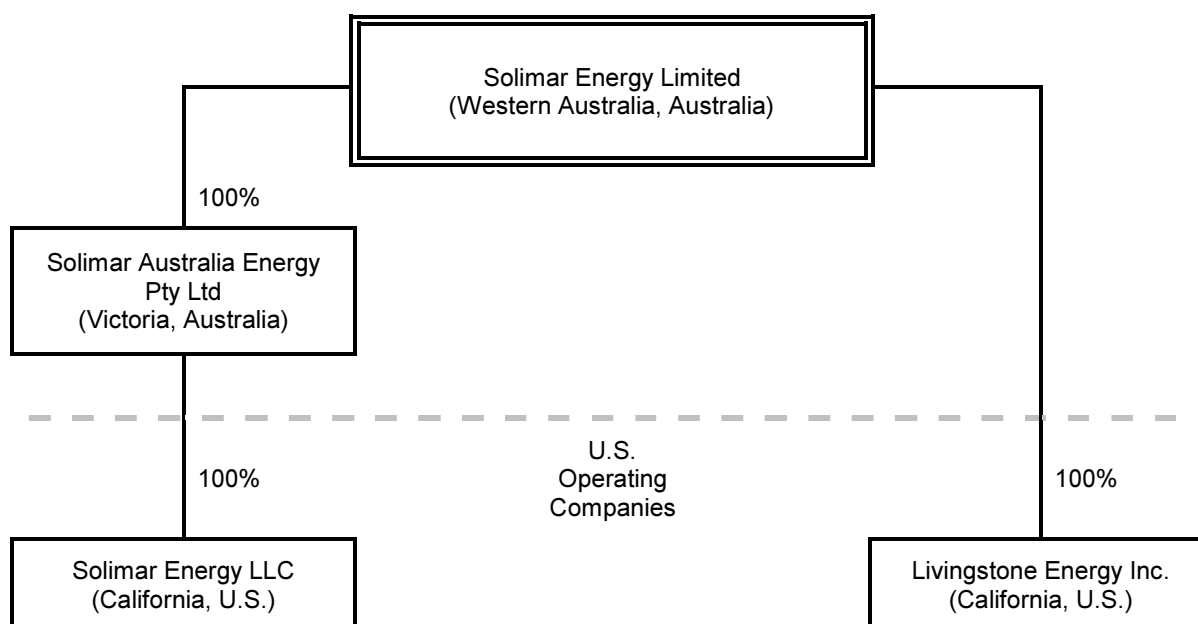
On July 23, 2007, Livingstone Petroleum changed its name to Solimar Energy Limited and Solimar Energy Pty Ltd changed its name to Solimar Australia Energy Pty Ltd. On September 28, 2007, the Ordinary Shares commenced trading under the new symbol, "SGY".

Solimar Energy LLC, a wholly-owned subsidiary of Solimar was formed on March 6, 2006. Livingstone Energy Inc., a wholly-owned subsidiary of Solimar was incorporated on June 20, 2005. Solimar Energy LLC and Livingstone Energy Inc. were established as operating companies to carry on oil and gas exploration and development activities in the State of California. Solimar Energy LLC and Livingstone Energy Inc. were both established under the laws of the State of California.

Solimar's head and registered office is located at 566 Elizabeth Street, Melbourne, Victoria, Australia, 3000. The Company has a branch office located at 121 N Fir Street, Suite H, Ventura, California, United States 93001. Solimar's address for service in Canada is 1000, 250 – 2<sup>nd</sup> Street S.W., Calgary, Alberta T2P 0C1.

The website address for the Company is [www.solimarenergy.com.au](http://www.solimarenergy.com.au). Solimar is a reporting issuer or the equivalent in Australia and the Canadian Provinces of Alberta, British Columbia and Ontario.

### Intercorporate Relationships



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

The following is a summary description of the development of the Company's business over the last three completed financial years.

*Period from July 1, 2011 to June 30, 2012*

On August 25, 2011, Solimar announced that it had entered into a series of financing arrangements, which involved both an underwritten financing and an unsecured loan facility, whereby the Company would receive aggregate minimum gross proceeds of approximately C\$5,500,000 and up to maximum gross proceeds of approximately C\$8,500,000. A prior A\$7 million placement approved by shareholders at a General Meeting on July 29, 2011 was found to have structural deficiencies due to unanticipated increased levels of Canadian share ownership that would prevent tradability of stock for Canadian investors (potentially for an indefinite period). This was terminated on delivery of C\$3.5 million in funds advanced under the loan facility and entering into the underwritten financing agreement. The loan facility was an unsecured loan facility of C\$3,500,000 arranged at arm's length with strategic investors. The loan could be converted, at the Company's election, into special warrants that are then convertible to Ordinary Shares and warrants on the same terms as the underwritten financing. Alternatively, the Company could pay out the loan in cash within 12 months.

On September 12, 2011, Solimar announced the appointment of Dr. Charle Gamba as an independent non-executive Director to the Board. See "*Directors and Officers*".

On October 5, 2011, Solimar closed an underwritten private placement of 34,054,638 subscription receipts for aggregate gross proceeds of C\$2,451,934 (including 6,276,638 subscription receipts pursuant to a portion of the over-allotment option). The private placement was underwritten according to customary underwriting terms and conditions. Investors paid C\$0.072 per subscription receipt and the proceeds of the subscription receipts were deposited into escrow on the closing date.

On October 10, 2011, Solimar announced the appointment of Jason Bednar as an independent non-executive Director to the Board. See "*Directors and Officers*".

On November 10, 2011, concurrently with the satisfaction of certain escrow release conditions regarding Solimar listing its shares on the TSXV and the receipt of related shareholder approvals: (i) the subscription receipts sold under the underwritten private placement were automatically exercised for 34,054,638 special warrants; (ii) the C\$3,500,000 loan facility was converted for 48,611,110 special warrants; and (iii) the C\$2,307,344 (net of costs) escrowed proceeds from the underwritten private placement were released to the Company.

On November 14, 2011, Solimar announced that it had dual listed the Ordinary Shares on the TSXV. The Ordinary Shares trade under the code "SXS" on the TSXV. The Ordinary Shares continue to trade on the ASX under the code "SGY".

On November 15, 2011, the Company issued 90,932,322 Ordinary Shares and 41,332,874 warrants pursuant to the conversion of the special warrants issued pursuant to the subscription receipt sold on October 5, 2011. Each warrant entitles the holder thereof to acquire one Ordinary Share at a price of \$0.144 per share until October 5, 2014.

On November 17, 2011, Solimar announced the appointment of Mr. Will Satterfield, effective January 1, 2012, as Chief Operating Officer based in the Company's operations office at Ventura, California. See "*Directors and Officers*".

On February 13, 2012, Solimar announced that the offering of an aggregate of C\$2,800,000 convertible unsecured senior debentures (the "**February Debentures**") subject to a coupon interest rate of 10% per annum, payable quarterly in arrears, at the election of Solimar, in cash or through the issuance of Ordinary Shares at a price equal to the great of (i) the Discounted Market Price (as defined by the policies of the TSXV) and (ii) a 10% discount to the volume weighted average trading price of the Ordinary Shares on the TSXV for the 10 trading days immediately preceding the applicable quarterly interest payment date.

The Debentures have a term of 24 months and will be convertible into Ordinary Shares at the holder's option at a conversion price equal to C\$0.10 per Ordinary Share. Solimar has the right to accelerate the maturity date of the February Debentures to 30 days from the date of notice once the share price of the Ordinary Shares is equal to, or greater than, \$0.20 per share on the TSXV or the ASX for 21 consecutive trading days. Each holder of a February Debenture received 250,000 warrants per February Debenture. Each warrant entitles the holder to acquire one Ordinary Share at a price of C\$0.15 for a period of 24 months after the closing date. Solimar will have the right to accelerate the expiry date of the warrants to 30 days from the date of notice once the share price of the Ordinary Shares is equal to, or greater than, C\$0.25 per share on the TSXV or the ASX for 21 consecutive trading days.

On April 5, 2012 Solimar announced that it had completed a private placement for gross proceeds of C\$1.1 million through the issue of 12,222,222 units at a price of C\$0.09 per unit to two sophisticated investors based in Canada and Switzerland. Each unit consisted of one (1) Ordinary Share and one-half (1/2) of one warrant. Each whole warrant entitles the holder to acquire one (1) Ordinary Share at an exercise price of C\$0.15 until the date that is three (3) years from the date the warrants were issued.

*Period from July 1, 2012 to June 30, 2013*

On August 1, 2012, Solimar announced that, having received the required shareholder approval at the general meeting held on July 23, 2013 and the required approval from the holders of February Debentures, it has issued 80 debentures ("**June Debentures**") and 20,000,000 warrants in exchange for subscription receipts issued by it on June 27, 2012, allowing the gross proceeds of C\$4 million to be released from escrow. The June Debentures are convertible into Ordinary Shares at C\$0.10 per share and each warrant is exercisable for one Ordinary Share at C\$0.12 per share. Under the subscription receipt financing announced on June 11, 2012, the C\$4 million raised had been placed in escrow, with release of the funds subject to certain conditions. All conditions to the release of the funds raised by the issue of the subscription receipts were fulfilled and the funds were released.

On August 2, 2012, Solimar announced the appointment of two new Directors to the Board, Messrs. Will Satterfield (executive) and Ryan Dunfield (non-executive). See "*Directors and Officers*".

On February 5, 2013, Solimar announced the sale of its 50% interest in the Maricopa Project. The Company has formally closed on the sale of the 120 acre Maricopa property to an undisclosed private buyer for a total purchase price of US\$1,250,000. Solimar's 50% working interest proceeds are US\$625,000. Solimar was operator of the property with Challenger Energy LLC holding the remaining 50% working interest. Effective date for the transaction is January 31, 2013.

On May 7, 2013, Solimar announced the execution of a farmout agreement regarding the Kreyenhagen Project. See "*Description of the Business of the Company - Principal Properties - Kreyenhagen Project*".

On June 3, 2013, Solimar announced the resignation of William Satterfield as the CEO of the Company and the appointment of an executive committee to oversee the operations of the Company. The Committee is led by Mr. Jason Bednar.

*Period from July 1, 2013 to June 30, 2014*

On July 22, 2013, the Company announced the resignation of Ryan Dunfield as a Director of the Company.

The Company also announced that SCCP Solimar Holdings LP ("Second City") had issued a "Notice & Request" to Computershare Trust Company of Canada in its capacity as the Trustee (the "Trustee") under the Convertible Debenture Indenture dated June 26, 2012 providing for the issuance of the June Debentures. Under the notice of default they requested the payment of outstanding interest and principal. Solimar rectified this event of default through the payment of interest owing of approximately C\$110,000 to the holders of the June Debentures.

The Company also announced its intention to complete (subject to TSXV approval) a private placement of up to C\$500,000 of Units (each unit comprised one Common Shares and up to one Warrant) at a price of C\$0.015 on the TSXV which price is reserved for the offering.

On August 12, 2013, Solimar 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 Solimar has sold 28.75% of its 57.5% working interest in the leases to Avere Energy Corp. and 18.75% of its 57.5% working interest and operatorship in the leases to North American Oil and Gas Corporation. The resultant working interest division in the leases is Solimar: 10%, North American Oil and Gas Corporation: 40%, and Avere Energy Corp.: 50%.

On August 16, 2013, Solimar announced that it had reached an agreement with holders of June Debentures. After nearly one month of negotiations, the holders of 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 condition that the debenture indenture be amended and restated to provide, among other things, as follows:

- the interest payable on the June Debentures increases to 20% per annum effective July 1, 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 is brought forward to January 31, 2014. However, at the Company's option and upon the Company and its subsidiaries providing the holders of 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 the extension, the maturity date may be extended to July 31, 2014;
- the Company pays a loan modification fee of C\$500,000, payable proportionately to the holders of the June Debentures 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 debenture indenture was amended and restated as of August 14, 2013 to reflect the foregoing conditions.

Effective September 1, 2013 the Company entered into an Asset Swap transaction affecting oil and gas leases located in the Kreyenhagen and Jacalitos areas with Exploration, Inc. (XPL). The Company acquired XPL's 16% working interest in certain leases located in the Kreyenhagen and Jacalitos prospective areas (3,082 acres) giving the Company 100% working interest while giving up the Company's 86% working interest in a non-prospective Kreyenhagen lease (1,141 acres).

On September 27, 2013, the Company closed the non-brokered private placement consisting of both units and subscription receipts convertible into units for aggregate gross proceeds of C\$500,000. Each unit was issued at a price of C\$0.015 and is comprised of one fully paid ordinary share and one warrant exercisable at C\$0.05 for the first 12 months and at \$0.10 for the subsequent 12 months. The proceeds raised from the issue of 28,234,666 units to investors totaled C\$423,520. The proceeds raised from the issue of subscription receipts to three directors, which are convertible into 5,098,667 units subject to shareholder approval at the Annual General Meeting to be held in November 2013, totals C\$76,480.

On November 5, 2013, the Company announced that it would be seeking shareholder approval at the AGM to consolidate the number of shares on issue through the conversion of every 25 Shares to 1 Share. At the time of the announcement the Company had issued 509,240,358 Shares and the proposed consolidation would reduce this number to approximately 20.4 million shares on issue. The Company also had 51,100,000 unlisted options and 109,678,651 unlisted warrants on issue. The proposed consolidation would see these totals reduced to 2,044,000 options and 4,387,147 warrants on issue with a corresponding increase in their respective exercise prices.

The consolidation of the issued shares, options and warrants was approved at the AGM and became effective from December 19, 2013 on both the TSXV and ASX.

On December 27, 2013, the Company commenced trading on the ASX under the "SXS" ticker code. The Company then had identical codes on the TSXV and ASX.

On December 31, 2013 the Company satisfied its obligation to pay the principal and remaining interest to February Debenture holders by issuing an aggregate of 24,529,905 common shares of the Company to the debenture holders. The issue of these shares eliminated C\$2,870,000 of debt from the Company's Balance Sheet.

On January 31, 2014 the Company announced that, subject to TSXV approval, it intended 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 was to comprise of one common share and one half of one right. Each right entitled the holder to acquire one warrant upon shareholder approval of the conversion of the rights to warrants. Upon shareholder approval, each warrant allowed the holder to purchase one common share of the Company at a price of C\$0.065 for a 24 month period following closing.

The Company also announced that it would hold a shareholder meeting before the end of March 2014 in order for, among other things, shareholders to vote on, and if deemed appropriate, to approve the conversion of the rights to warrants. Following or concurrent with the shareholder meeting the Company intended to proceed with an ASX rights offering.

On January 31, 2013 connection with the extension of the June debentures the Company announced that it had granted first priority security to such debenture holders over all of the assets of the Company and its subsidiaries and that it had paid the extension fee of C\$250,000 the debenture holders on a pro-rata basis. The maturity date for the debentures was extended to July 31, 2014.

On February 3, 2014, the Company announced that the first tranche of the non-brokered private placement for aggregate gross proceeds of C\$250,000 had been completed.

On February 20, 2014, the Company announced that the second tranche of the non-brokered private placement for aggregate gross proceeds of C\$356,800 had been completed.

Canacol Energy Ltd on completion of the second tranche had informed the Company that it held approximately 9.64% of the shares outstanding in the Company. In addition it held warrants, that if all the warrants were exercised, Canacol would 10.88% of the shares in the Company. If shareholders at the shareholder meeting in March 2014 approve the conversion of rights to warrants and these warrants are exercised Canacol would have beneficial ownership or, and control and director over approximately 14.37% of the outstanding shares in the Company.

On February 28, 2014 the Company's Chief Financial Officer and Company Secretary, Chris Bowyer resigned.

On March 1, 2014 the Company appointed Chris Ritchie as the Company's Chief Financial Officer and Company Secretary.

On May 13, 2014, the Company announced that the third tranche of the non-brokered private placement for gross proceeds of C\$362,600 had been completed.

On June 23, 2014, the Company announced that the fourth tranche of the non-brokered private placement for gross proceeds of C\$138,000 had been completed.

All securities issued under the non-brokered private placement were subject to a four-month statutory hold period.

Rio Bravo Commercial Enterprise, Inc. on completion of the fourth tranche had informed the Company that it held approximately 9.97% of the shares outstanding in the Company. In addition it held warrants, that if all the warrants were exercised, Rio Bravo would hold 14.24% of the Company.

*Period subsequent to 30 June 2014*

The Company received a Notice of Default from Computershare Trust Company of Canada on 24 July 2014, 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 (the "Debentures") regarding the June Debentures. The notice related to the Company's failure to pay interest and principal 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 in negotiations with the holders of the June Debentures.

### **Significant Acquisitions**

During the fiscal year ended June 30, 2014, the Company did not complete any significant acquisitions.

## **DESCRIPTION OF THE BUSINESS OF THE COMPANY**

### **General**

Solimar Energy Limited is a public company listed on the Australian Securities Exchange (ASX Code: SXS) and the TSX Venture Exchange (TSXV Code: SXS). The Company is based in Melbourne, Australia and has an operations office in Ventura, California, USA.

The Company is an oil and gas production and exploration company with a multi-project asset base focussed in the oil prolific San Joaquin Basin, onshore California.

The Company's assets are mainly in oil prone trends adjacent giant fields and target both conventional (sandstone) and unconventional (fractured oil shale) reservoirs.

The Company is a large acreage holder in the emerging Kreyenhagen oil shale trend in the northwest San Joaquin Basin.

Solimar is embarking on an active work program to convert the large oil and gas resource potential within its acreage to reserves.

The Company looks to operate its assets particularly where it holds high equity positions. This includes a control position in the Kreyenhagen oil field which is a known, shallow oil accumulation with significant volumes of oil intersected by numerous wells within the Company's control acreage.

In many cases Solimar will be the first oil and gas Company with the opportunity to apply modern drilling, completion and production technologies to unlock the potential in the acreage portfolio it has secured.

### *Corporate Strategy*

Solimar's strategy is to focus on oil and gas exploration, commercial development and production in the onshore hydrocarbon regions of California with a growing focus on the San Joaquin Basin. Solimar currently holds 23,094 net acres in the San Joaquin Basin. The Company's portfolio of assets includes 3 different projects, 1 of which Solimar operates and is the main interest holder.

### *Corporate Objective*

Solimar's objective is to become a significant oil and gas reserves owner/producer in California by:

- building a strong technical and operational team across the business;
- identifying attractive exploration and field appraisal opportunities to convert resources to reserves;
- where possible, operating its projects holding control positions;
- establishing strong partnerships with successful oil and gas companies and contractors;
- commercialising successful results into production and cash flows for reinvestment in order to grow its asset portfolio;
- maintaining a strong financial position and disciplined approach to conducting business; and



- rewarding shareholders by delivering results and growing the Company.

#### *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, farmouts 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 risks. No assurance can be given that drilling will prove successful in establishing commercially recoverable reserves. See "*Risk Factors*".

#### *Competitive Conditions*

Companies involved in the petroleum industry must manage many risks which are beyond their direct control. Among these risks are risks associated with exploration, environment, commodity prices, foreign exchange and interest rates.

The oil and natural gas industry is intensely competitive and the Company competes with a substantial number of other companies, many of whom have greater financial resources. Many of such companies not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a world-wide basis. There is also competition between the petroleum industry and other industries supplying energy and fuel to industrial, commercial and individual customers. There is no assurance that the Company will be able to successfully compete against its competitors. See "*Risk Factors*".

#### *Cyclical Nature of Business*

The Company's business is generally not cyclical. The exploration and development of oil and natural gas reserves is dependent on access to areas where production is to be conducted. Seasonal weather variation, including rainy seasons, may affect access in certain circumstances. However, the San Joaquin Basin is generally in an area of low rainfall and weather conditions are not a significant impediment to the execution of the Company's work programs. See "*Risk Factors*".

#### *Specialized Skill and Knowledge*

Operations in the oil and natural gas industry mean that Solimar requires professionals with skills and knowledge in diverse fields of expertise. In the course of its exploration, development and production of hydrocarbons, the Company utilizes the expertise of geophysicists, geologists, petroleum engineers and landmen. The Company faces the challenge of attracting and retaining sufficient employees to meet its needs. To accomplish this, Solimar continues to pursue building a strong technical and operational team. See "*Risk Factors*".

#### *Environmental Protection and Policies*

The Company and others in the oil and gas industry are subject to various federal, state and local environmental laws and regulations enacted in the State of California. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with crude oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. Solimar may be responsible for abandonment and site restoration costs. The Company adheres to all such laws and regulations. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, Solimar cannot predict the nature of the restrictions that will be imposed. The Company may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations. See "*Risk Factors*".

Historically, environmental protection requirements have not had a significant financial or operational effect on the Company's capital expenditures, earnings or competitive position. Environmental requirements have not had a significant effect on such matters in fiscal 2014 nor are they currently anticipated to in the future.

## *Foreign Operations*

Solimar is subject to political, economic and other uncertainties, including, but not limited to, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations, exchange controls, and royalty and tax increases. The Company's operations may also be adversely affected by laws and policies of the United States and Australia affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's operations in the countries in which it operates, the Company may be subject to the exclusive jurisdiction of United States' courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Australia or enforcing Australian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and production activities in United States could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of the Ordinary Shares. See "*Risk Factors*".

## **Employees/Consultants**

The Company's staffing levels, as at October 31, 2014, was approximately 1 full-time consultant and 3 part-time consultants located in the Ventura office. There is also 1 part time consultant located in the Melbourne office. The level of staffing will vary based on future operational and administrative demands.

## **Environmental**

The Company believes that it is in compliance with applicable existing environmental laws and regulations and is not aware of any proposed environmental legislation or regulations with which it would not be in material compliance. However, the natural resources industry may in the future become subject to more stringent environmental protection rules. This could increase the cost of doing business and may have a negative impact on earnings in the future.

## **Reorganizations**

The Company completed a 25: 1 share consolidation on December 19, 2013. Options and Warrants were also consolidated on the same ratio and their exercise price adjusted accordingly. There has been no other material reorganizations within the three most recently completed financial years.

## **Principal Properties**

### *Kreyenhagen: 86.5 - 100% Working Interest and Operator*

The Kreyenhagen Project is located in and around the Kreyenhagen Field of Fresno and Kings Counties, California. Solimar has approximately 10,876 gross and net acres under lease, including approximately 10,000 gross and net acres in the core 100% working interest owned Kreyenhagen Ranch Lease, with an 86.5% to 100% working interest in the remaining leases. The Kreyenhagen Project also encompass the entire 800 acre Kreyenhagen Field administrative area.

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).

The Company expects to conduct a steam pilot test in late 2014 and early 2015 using existing wells that have been completed for thermal production. The permits for the steam pilot test have been secured from the State of California.

#### *Tejon Ranch: 10% Working Interest*

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%. Subsequent to year end NAMG has advised that it will no longer pay lease delay rentals on certain leases associated with the project. Should the Company not take over these lease delay rentals, its interest in that part of the project will terminate. As at the date of this report the Company has not made a final decision on the matter.

#### *Bayswater: No further working interest*

The Company relinquished its interest in the project due to lease expiration on September 30, 2014. However, 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 opportunities of the expanding new play.

#### *Jacalitos: No further working interest*

The Company relinquished its interest in the lease due to the expiration of the lease in September 2014.

#### *Paloma: No further working interest*

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.

### **STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

#### **Date of Statement**

This Statement of Reserves Data and Other Oil and Gas Information is dated June 30, 2014 unless indicated otherwise.

#### **Reserves and Future Net Revenue**

As of June 30, 2014, there are no oil or natural gas reserves attributed to the Company's properties. As such no reserve report has been prepared for the year ended June 30, 2014.

#### **Oil and Gas Properties and Wells**

As at June 30, 2014, all of the Company's oil and gas properties are unproved and have no attributed reserves.

The Company's key interests are all located within the San Joaquin Basin, California. Solimar's portfolio of assets includes 2 different projects, 1 of which Solimar operates and is the main interest holder. The Company currently holds 19,259 gross acres (approximately 18,821 net) in the San Joaquin Basin. As at June 30, 2014 the Company had no producing oil and gas wells and 5 (3.4 net) non-producing oil and gas wells in the San Joaquin Basin. See "Description of the *Business of the Company - Principal Properties*".

## Properties with no Attributed Reserves

As at June 30, 2014, there were no oil or natural gas reserves attributed to the Company's properties and the Company had 19,259 gross (18,821 net) acres of oil and gas properties in California in which the Company has an interest, but no reserves have been assigned.

During the next 12 months approximately 11,266 gross and net acres are due to expire. At this time the Company is uncertain whether the lease on this acreage will be extended.

## Resources other than Reserves

Sproule Unconventional Limited ("**Sproule**") prepared two reports that consist of resource assessments regarding certain prospects located within the Kreyenhagen Field Administrative Boundary (225 acres) of the Kreyenhagen Project. Sproule is an independent qualified reserves evaluator and the reports were prepared in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") and the *Canadian Oil and Gas Evaluation Handbook*.

### *Avenal Sandstone Formation - Kreyenhagen Field Administrative Boundary*

The first report includes a resource assessment of the Avenal Sandstone formation in the Kreyenhagen Field Administrative Boundary. The report is entitled "*Resource Assessment of Certain P&NG Holdings in the Kreyenhagen Area, San Joaquin Basin, California, for Solimar Energy Limited (As of October 31, 2011)*". The report is dated November 16, 2011 and has an effective date of October 31, 2011. Based on Sproule's analysis, the unrisked, gross working interest prospective resources estimated for the Avenal Sandstone formation, without consideration of economics, working interest, royalties or other encumbrances, are as follows:

	Avenal Sandstone Formation (Gross Unrisked Company Working Interest)		
	Low Estimate (Mbbbl)	Best Estimate (Mbbbl)	High Estimate (Mbbbl)
<b>Prospective Resources</b>	<b>29.7</b>	<b>148.4</b>	<b>648.5</b>

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

Prospective Resources have both an associated chance of discovery and a chance of development; in this case, the discovery risk is interpreted to relate to recovery process risk rather than geological risk. These estimates have not been adjusted for either discovery/recovery process risk or development risk; thus NI 51-101 requires the inclusion of a disclaimer stating that there is no certainty that any portion of these prospective resources will be discovered, that any portion of these resources will be developed or that it will be commercially viable to produce any portion of these resources.

### *Temblor Formation - Kreyenhagen Field Administrative Boundary*

The second report includes a resource assessment of the Temblor formation in the Kreyenhagen Field Administrative Boundary. The report is entitled "*Contingent Resource Assessment of the Temblor Formation in the Kreyenhagen Field Administrative Boundary Lease in the Kreyenhagen Area, San Joaquin Basin, California, for Solimar Energy Limited (As of July 31, 2012)*". The report is dated September 25, 2012 and has an effective date of July 31, 2012.

Contingent Resources were estimated for a planned pilot project, based on a 2.5-acre 5-spot pattern using a proximal well, estimates of oil initially-in-place, and the recovery factor distribution based on an analogue pilot. A recovery factor distribution of 10% (low), 35% (best), and 60% (high) was incorporated into the probabilistic model. In accordance with current resource disclosure guidelines, the Contingent Resources within the planned pilot project were sub-classified as Development Pending and the remaining Contingent Resources assigned to the property were sub-classified as Development Unclassified or on Hold because the Company currently has no development plans for these resources. The Company does not currently have any assets which are classified as being on hold.

Using these models, Sproule estimated that the Contingent Resources attributable to the Company's 100% working interest in the Temblor Formation, without consideration of economics, working interest, royalties, or other encumbrances, were as follows:

	Temblor Formation (Gross Unrisked Company Working Interest)		
	Low Estimate (Mbbbl)	Best Estimate (Mbbbl)	High Estimate (Mbbbl)
Development Pending (Pilot)	78	130	184
Development Unclassified	2,339	4,016	5,969
<b>Contingent Resources</b>	<b>2,416</b>	<b>4,146</b>	<b>6,153</b>

The Contingent Resources were sub-classified by development maturity based on the Company's commitment, application for regulatory approval and capital spending to develop these resources.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets.

The contingencies that prevent these Contingent Resources from being classified as reserves are regulatory approval, development of the pilot project itself, proof of economic viability, and corporate commitment of funds for development. Note that contingent resources carry development risk and that these resource estimates have not been risked for the chance of development; thus NI 51-101 requires the inclusion of a disclaimer stating that there is no certainty that any portion of these resources will be developed, or that it will be commercially viable to produce any portion of these resources.

"Best Estimate" means the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

"Low Estimate" means a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.

"High Estimate" means an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

#### **Significant Factors or Uncertainties Relevant to Properties With No Attributed Reserves**

The Company does not anticipate significant economic factors or significant uncertainties that will affect the anticipated development or production on properties with no attributed reserves. However, the development or production of such properties can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond the Company's control. See "*Risk Factors*".

#### **Forward Contracts**

As of June 30, 2014, Solimar was not party to any forward sale contracts.

## Additional Information Concerning Abandonment and Reclamation Costs

The Company is required to provide for future removal and restoration costs on its conventional oil and gas assets. Solimar estimated these costs in accordance with the existing laws, contracts or other policies. At June 30, 2014, the Company had 11 gross (11 net) wells to abandon and the total amount of such costs expected to be incurred (before any potential salvage costs) is US\$796,321 (US\$548,459 calculated at a 10% discount). The Company expects to pay US\$796,321 regarding abandonment and reclamation in the next three years.

## Tax Horizon

The Company was not required to pay income taxes during the year ended June 30, 2014. The Company does not expect to pay income taxes in the next two years.

## Costs Incurred

The following table shows (in thousands of dollars) the Company's costs for the categories for the year ended June 30, 2014:

	June 30, 2014
	(US\$)
Property Acquisition Cost	
Proved Properties	-
Unproved Properties	-
Exploration Costs	60,401
Development Costs	-
<b>Total</b>	<b>60,401</b>

## Exploration and Development Activities

In the year ended June 30, 2014, the Company drilled no exploratory wells in California and tested three existing wells.

## Production History

The following table discloses, on a quarterly basis for the year ended June 30, 2014, the Company's share of average daily production volume, prior to royalties, and the prices received, royalties paid, production costs incurred and netbacks on a per unit of volume basis for each product type. The Company had minimal production. All production recorded is from the Kreyenhagen project.

	Three Months Ended				Year ended June 30, 2014
	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	Average Daily Production Volume
<b>Average Daily Production</b>					
Heavy Oil (bbl/d)	0	1.4	0	0	1.4
Oil and NGL (bbl/d)	0	0	0	0	0
Natural Gas (Mcf/d)	0	0	0	0	0
<b>Total (boe/d)</b>	<b>0</b>	<b>1.4</b>	<b>0</b>	<b>0</b>	<b>1.4</b>
<b>Average Price Received (US\$)</b>					
Heavy Oil (bbl/d)	0	91.33	0	0	91.33
Oil and NGL (bbl/d)	0	0	0	0	0
Natural Gas (Mcf/d)	0	0	0	0	0
<b>Total (boe/d)</b>	<b>0</b>	<b>91.33</b>	<b>0</b>	<b>0</b>	<b>91.33</b>

**Combined Netback  
(US\$)**

Revenue	0	12,173	0	0	33.35
Royalties	0	2,672	0	0	7.32
Operating Costs	0	0	0	0	0
<b>Netback</b>	<b>0</b>	<b>9,501</b>	<b>0</b>	<b>0</b>	<b>26.03</b>

**Combined Netback  
(US\$/bbl)**

Revenue	0	91.33	0	0	91.33
Royalties	0	20.05	0	0	20.05
Operating Costs	0	0	0	0	0
<b>Netback</b>	<b>0</b>	<b>71.28</b>	<b>0</b>	<b>0</b>	<b>71.28</b>

**Production Volume by Field**

The following table discloses for each important field, and in total, the Company's production volumes for the financial year ended June 30, 2014 for each product type.

Field	Heavy Oil (bbl/d)	Oil and NGLs (bbl/d)	Natural Gas (Mcf/d)	boe (boe/d)	%
Kreyenhagen	0.36	0	0	0	100
<b>Total</b>	<b>0.36</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>

**RISK FACTORS**

**Risk Factors Relating to the June Debentures**

*Ongoing Default Under the June Debentures*

The Company was unable to refinance the principal amount of the June Debentures in order to repay the principal and interest owing on the June Debentures and also did not generate enough cash from operations to meet this obligation. As a result, the Company is in default under the terms of the June Debentures.

The Company received a Notice of Default from Computershare Trust Company of Canada on 24 July 2014, in its capacity as the Trustee regarding the June Debentures. The notice related to the Company's failure to pay interest and principal 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 in negotiations with the holders of the June Debentures.

The June Debenture holders have first priority security over all of the assets of the Company and its subsidiaries. There is no assurance that the negotiations with the June Debenture holders will be successful and the June Debenture holders may instruct the trustee to enforce payment by the Company of the principal and interest owing on the June Debentures. There is no assurance that the June Debenture holders will not instruct the trustee to proceed with insolvency, bankruptcy, liquidation or other judicial proceedings to realize on such security interest.

*Existing and Prior Ranking Indebtedness*

The Company's ability to meet its debt-service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the Company's financial performance, debt-service obligations, working capital and future capital-expenditure requirements. In addition, the Company's ability to borrow funds in the future and to make payments on outstanding debt will depend on the satisfaction of covenants in the June Debentures.

Currently, the Company is in default under the June Debentures and has failed to comply with the obligations under the June Debentures. This default has resulted in the acceleration of the relevant indebtedness, and is subject only to any agreement that the Company can negotiate with holders. If such negotiations fail, there can be no assurance that the Company's assets will be sufficient to repay such indebtedness in full.



There can also be no assurance that the Company will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

The Company received a Notice of Default from Computershare Trust Company of Canada on 24 July 2014, in its capacity as the Trustee regarding the June Debentures. The notice related to the Company's failure to pay interest and principal 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 in negotiations with the holders of the June Debentures.

In July 2013, there was an event of default under the June Debentures for Solimar's failure to pay interest on time. On August 16, 2013, Solimar reached an agreement with holders of June Debentures whereby the holders of 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 condition that the debenture indenture be amended and restated to provide, among other things, as follows:

- the interest payable on the June Debentures increases to 20% per annum effective July 1, 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 is brought forward to January 31, 2014. However, at the Company's option and upon the Company and its subsidiaries providing the holders of 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 the extension, the maturity date may be extended to July 31, 2014;
- the Company pays a loan modification fee of C\$500,000, payable proportionately to the holders of the June Debentures 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 debenture indenture was amended and restated as of August 14, 2013 to reflect the foregoing conditions

There can be no assurance that the Company will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs in the future.

#### *Redemption on a Change of Control*

The Company will be required to offer to purchase for cash all outstanding June Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the Company will not have sufficient funds at that time to make the required purchase of outstanding June Debentures or that restrictions contained in other indebtedness will restrict those purchases. In addition, the Company's ability to purchase the June Debentures in such an event may be limited by law, by the corresponding indentures, by the terms of other present or future agreements relating to indebtedness, and agreements that the Company may enter into in the future which may replace, supplement or amend the Company's future debt. The Company's future credit agreements or other agreements may contain provisions that could prohibit the purchase of the June Debentures by the Company. The Company's failure to purchase the June Debentures would constitute an event of default under the corresponding indentures, which might constitute a default under the terms of the Company's other indebtedness at that time.

If a holder of debentures converts its June Debentures in connection with a Change of Control, the Company may, in certain circumstances, be required to increase the conversion rate. While the increased conversion rate is designed, inter alia, to compensate a holder of June Debentures for the lost option time value of its June Debentures as a result of a Change of Control in certain circumstances, the increased conversion rate amount is only an approximation of such lost value and may not adequately compensate the holder for such loss.

### *Dilutive Effects on Holders of Ordinary Shares*

The Company may issue Ordinary Shares upon conversion, redemption or maturity of the June Debentures. Additionally, the Company may issue Ordinary Shares in connection with the payment of interest on the June Debentures. Accordingly, holders of Ordinary Shares may suffer dilution.

### *Conversion Right Following Certain Transactions*

In the event of certain transactions, pursuant to the terms of the corresponding indentures, each 2012 Debenture will become convertible into securities, cash or property receivable by a holder of Ordinary Shares in such transactions. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the June Debentures. For example, if the Company were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on future prospects and other factors.

### *Credit Risk*

The likelihood that purchasers of the June Debentures will receive payments owing to them under the terms of the June Debentures will depend on the Company's financial health and creditworthiness at the time of such payments.

### **Industry Risks**

Competitive factors in the distribution and marketing of oil and gas include price methods and reliability of delivery. The oil and natural gas industry is intensely competitive and Solimar competes with other companies which possess greater technical and financial resources. Many of these competitors not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on an international basis. Generally, there is intense competition for the acquisition of resource properties considered to have commercial potential. Prices paid for both oil and natural gas produced are subject to market fluctuations and will directly affect the profitability of producing any oil or natural gas reserves which may be acquired or developed by Solimar. There is no assurance that Solimar will be able to successfully compete against such competitors.

The impact on the oil and natural gas industry from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers may also decline.

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by Solimar will result in discoveries of oil or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Solimar's operations are subject to all the risks normally associated with the exploration, development and operation of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, potential environmental damage, blow-outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of Solimar and others. In accordance with customary industry practice Solimar does maintain insurance coverage, but is not fully insured against all risks, nor are all such risks insurable.

Oil and natural gas exploration and development activities are dependent on the availability of seismic, drilling and other specialized equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Solimar and may delay exploration and development activities.

### **Exploration Risks**

The exploration of the petroleum and natural gas holdings and exploration projects in the San Joaquin Basin, California, and any other properties the Company may have from time to time, involves a high degree of risk that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs.

The costs of seismic operations and drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Company's exploration programs and projects. In addition, the Company's seismic operations and drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, necessary governmental, regulatory or other third party approvals and compliance with regulatory requirements.

### **Stage of Development**

An investment in the Company is subject to certain risks related to the nature of the Company's business and the early stage of development of the Company's oil and gas business. There are numerous factors which may affect the success of the Company's business which are beyond the Company's control including local, national and international economic and political conditions. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. Accordingly, there can therefore be no assurance that the Company's business will be successful or profitable or that commercial quantities of crude oil and natural gas will be discovered by the Company.

The Company may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of its development. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse effect on its business, operations and projects.

### **Uncertainty of Cost Estimates**

Due to the nature of the Company's business and the early stage of development of the Company's oil and gas business, the Company is unable to estimate costs, including infrastructure improvement costs, transportation costs, seismic and drilling costs and production costs for its exploration and development plans, with complete accuracy. The inability of the Company to estimate these costs could affect the commerciality of the resources and reserves discovered in the petroleum and natural gas holdings and exploration projects in the San Joaquin Basin, California, or any other properties the Company may have from time to time, the economic viability of the Company's product and the ability of the Company to transport its product to market.

### **Limited Operating and Earnings History**

Solimar has received minimal revenue to date from the exploration activities on its properties and has only incurred losses since its incorporation.

The Company's business plan requires significant expenditure, particularly capital expenditure, during the exploration phase under the Company's oil and gas contracts. The Company will be subject to all the risks associated with establishing new oil and gas operations, including the timing and cost of the construction of infrastructure and facilities, the availability and cost of skilled labour and equipment, the need to obtain necessary environmental or other governmental approvals and permits, and the availability of funds to finance construction and development activities. Current cash positions may not be sufficient to cover the costs of the Company's drilling and exploration program and, accordingly, additional financing or joint venture partners will be required to conduct these activities. The inability to obtain future financing or find

future joint venture partners could materially affect the Company's business, financial condition, results of operations, and the value of the Company's Ordinary Shares.

Any future profitability from the Company's business will depend upon the successful development of the petroleum and natural gas holdings and exploration projects in the San Joaquin Basin, California, or any other properties the Company may have from time to time. There can be no assurance that the Company can achieve profitability in the future. Additional revenues, other than interest on unused funds may not occur for some time, if at all. The timing and extent of any revenues is variable and uncertain and, accordingly, the Company is unable to predict when, if at all, profitability will be achieved.

### **Negative Cash Flows**

To date, Solimar has experienced negative operating cash flow and has recorded minimal revenues from oil and gas operations. There can be no assurance that significant additional losses will not occur in the near future or that the Company will be profitable in the future. In the event of a commercial discovery, the Company's operating expenses and capital expenditures will likely increase as needed consultants, personnel and equipment associated with advancing exploration, development and potentially commercial production are added. The amounts and timing of such expenditures will depend on the progress of the Company's exploration and development plans, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the acquisition of additional properties and other factors, many of which are not under the control of the Company. The Company expects to continue to incur losses unless and until such time as it enters into commercial production more of the properties that it may have from time to time and generates sufficient revenues to fund continuing operations. The further development of any properties the Company may have from time to time will require the commitment of substantial resources to conduct the Company's exploration and development plans. There can be no assurance that the Company will generate further revenues or achieve profitability or that the underlying assumed costs and expenses of the Company's exploration and development plans will prove to be accurate. Historically, the only source of funds available to the Company has been through the sale of equity or convertible notes. There is no guarantee that the Company will be able to sell equity or debt securities in the future. If the Company does not have sufficient capital for its operations, this could result in delay or indefinite postponement of further exploration or development of any properties the Company may have from time to time, which could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

### **Reliance on Operators**

To the extent that the Company is not and will not be the operator of its properties, it is and will be dependent upon other guarantors or third parties' operations for the timing of such activities and is and will be largely unable to control the activities of such operators. The failure of such operators and their contractors to properly perform their obligations would have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

### **Crude Oil and Natural Gas Development**

No reserves have been assigned in connection with the Company's oil and gas projects. Accordingly, the future value of the Company is dependent on the success of the Company's activities which are directed toward the exploration and development of properties the Company may have from time to time. The Company has a plan to explore and develop the petroleum and natural gas holdings and exploration projects in the San Joaquin Basin, California, or any other properties the Company may have from time to time, which it may not be able to carry out or complete as contemplated. The Company's plan is contingent on the initial success of its work program. There is no certainty of the initial success of the Company's exploration and development plan or that the Company will be able to carry out its plan as contemplated or even to complete its plan. Additionally, the Company's current exploration and development plan could change depending on the results of its initial exploration and development work program.

Exploration and development of crude oil and natural gas reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the properties the Company may have from time to time will lead to a commercial discovery or, if there is commercial discovery, that the Company will be able to realize such reserves as intended.

Few properties that are explored are ultimately developed into new reserves. If at any stage the Company is precluded from pursuing its exploration or development plan, or such plan is otherwise not continued, the Company's business, financial condition, results of operations, and the value of its Ordinary Shares could be materially adversely affected.

Crude oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Company will result in discoveries of crude oil, condensate or natural gas that are commercially or economically possible. The Company may face shortages of, and increasing costs for seismic crews and equipment, drilling equipment, services (including transportation for equipment and crews) and personnel.

Shortages of, or increasing costs for, experienced seismic and drilling crews and oil field equipment and services could restrict the Company's ability to conduct seismic operations, drill wells and conduct other operations which it may currently have planned, and the timing of any such operations. Any delay in the drilling of new wells or significant increase in drilling costs could reduce the Company's revenues and cash available for operations.

Furthermore, it is difficult to project the costs of implementing any seismic program and any exploratory drilling program due to the inherent uncertainties of available logistical arrangements, including transportation, drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Furthermore, drilling operations may be delayed or cancelled as a result of other factors, including encountering unexpected formations or pressures, premature declines of reservoir pressures, potential environmental damage, adverse weather conditions, concession problems, lost circulation of drilling fluids, facility or equipment malfunctions, unexpected operational events, blow-outs, fires, ruptures and spills, all of which could result in personal injuries, loss of life and damage to property of the Company and others.

### **Key Personnel**

The Company's success and management of business risk depends in large part on the ability of its executive and management team. The executive and management team includes a number of highly experienced individuals with expertise in engineering, geosciences, commercial matters, public company finance and statutory compliance. The members of the management team contribute to the Company's ability to obtain, generate and manage opportunities. The Company's projects also depend upon the continued service of its senior technical employees and consultants and its ability to hire service providers to assist it in implementing its exploration and development plans. There may be a limited number of service providers who provide transportation, including helicopter and barge, services, seismic services and drilling and other oilfield services to the oil and gas industries and a high demand for the services offered by these service providers. The Company may further experience delays or interruptions in its exploration and development plans due to its inability to engage service providers to provide the transportation, seismic and drilling services it requires to carry out its work programs. There is also no guarantee that the Company will be able to retain its service providers. Additionally, their relationships with governmental agencies can be critical factors in the Company's success. There can be no assurance that the Company's present key personnel and directors will remain with the Company or that the Company will be able to retain its service providers. The departure of any such key person, director or service provider may materially affect the Company's business, financial condition, results of operations, and the value of its Ordinary Shares. A shortage of skilled labour may make it difficult for the Company to maintain labour productivity, and competitive costs could adversely affect its profitability.

### **Environmental Regulation and Risks**

As a company operating in crude oil and natural gas industry, Solimar is subject to environmental regulations in the jurisdictions in which it operates, California. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with crude oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. The Company may be responsible for abandonment and site restoration costs. The Company is of the view that its abandonment and restoration obligations can be satisfied out of general corporate funds as such obligations become due. As of the date hereof, the Company has not reserved any funds for future site restoration costs other than the payment of funds into an account provided by a third party in relation to the Kreyenhagen Project.

Extensive national, state and local environmental laws and regulations affect nearly all of the operations of the Company. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards, establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted, and require environmental reviews and approvals prior to the commencement of any operations. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation, including the use of newer technologies to mitigate the impact of the Company's oil and gas activities on such environmentally sensitive areas. There can be no assurance that the Company will not incur substantial financial obligations in connection with environmental compliance.

Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations.

Significant liability could be imposed on the Company for damages, clean up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by the Company or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares. Moreover, the Company cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by the Company for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

#### **Other Regulations**

The Company's operations are regulated extensively. Environmental and other governmental laws and regulations have increased the costs to operate the business and conduct the operations. Under these laws and regulations, the Company could also be liable for personal injuries, property damage and other damages. Failure to comply with these laws and regulations may result in the suspension or termination of operations and subject the Company to administrative, civil and criminal penalties. Moreover, public interest in environmental protection has increased in recent years, and environmental and other organizations or groups have opposed, with some success, certain drilling projects.

The Company's operations require numerous permits and authorizations under various laws and regulations, including environmental and health and safety laws and regulations. These authorizations and permits are subject to revocation, renewal or modification and can require operational changes, which may involve significant costs, to limit impacts or potential impacts on the environment and/or health and safety. A violation of these authorization or permit conditions or other legal or regulatory requirements could result in substantial fines, criminal sanctions, permit revocations, injunctions and/or refinery shutdowns. In addition, major modifications of operations could require modifications to the Company's existing permits and authorizations, or expensive upgrades to the existing pollution control equipment, which could have a material adverse effect on the Company's business, financial condition results of operations, and the value of its Ordinary Shares.

The government of the United States regulates the individuals or legal entities which may be awarded license contracts for the exploration and/or exploitation of hydrocarbons in those countries. In order to qualify to commence negotiating a license contract with the governmental oil and gas regulatory agencies in United States and act as operator under such license contract, an oil and gas corporation must meet certain technical and financial requirements.

#### **Availability of Equipment, Logistical Support and Qualified Personnel**

Oil and natural gas exploration and development activities are dependent on the availability of seismic, drilling and related equipment and qualified personnel in the particular areas where such activities will be conducted. All operations, including seismic and drilling operations, are also heavily dependent on the availability of limited logistical support and services, including transportation by helicopter and trucks, demand for such limited equipment and qualified personnel may affect the availability of such equipment

and qualified personnel to the Company and may delay the Company's exploration and development activities. In addition, the costs of employing qualified personnel and transporting equipment may be very high due to the remote nature of the area and the inherent challenges of transporting personnel and equipment there. The need to hire or retain qualified personnel from outside the United States to provide services to the Company in connection with its exploration and development activities in the United States will further exacerbate costs. There is no guarantee that the Company will have available to it all the personnel and equipment required to implement or carry on its work program.

### **Seasonal Weather Conditions**

The Company's operations will be adversely affected by seasonal weather conditions. The ability to effectively continue exploration and development activities and to transport equipment, personnel and any production may from time to time be adversely impacted by weather conditions. Adverse weather conditions may adversely impact the timing and costs of the Company's plans.

### **Additional Financing**

The Company's future exploration, development and acquisition plans will require additional financing. The oil and gas industry generally is capital intensive and the Company's participation in the industry will likely require additional financing to fund such capital expenditures. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company including the Company's planned exploration program. Periodic fluctuations in energy prices may affect lending policies of banks. An inability to raise additional financing could limit growth projects in the short run or may even require the Company to dispose of properties to continue operations under circumstances of declining energy prices, disappointing exploration results, or economic or political dislocation in foreign countries. In the alternative, the Company will be required to enter into joint venture or farmout agreements or potentially sell the Company to an entity with greater resources. Even if financing is available, there can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. If additional financing is raised by the issuance of securities from treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

In addition, the Company may be required to fund its ongoing operations, capital expenditures or transactions to acquire assets or the shares of other companies through debt financing which may increase the Company's debt levels above industry standards.

Solimar is reviewing its budget and means of access to additional capital so as to not only meet the Company's planned work program and working capital requirements. Alternatively, Solimar may access further capital through farmouts and selected asset sales. The latter are likely only to be partial sales for key assets or outright sales of non-core assets.

### **Volatility of Crude Oil and Gas Prices and Markets**

The Company's financial condition, operating results and future growth are dependent on the prevailing prices for its hydrocarbons. Specifically, the Company's earnings and cash flows from operations depend on the margin above fixed and variable expenses (including the cost of refinery feedstock) at which it is able to sell refined products. Historically, the markets for crude oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for hydrocarbons are subject to large fluctuations in response to relatively minor changes to the demand for crude oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of the Company. Any substantial decline in the prices of crude oil and natural gas could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares. Additionally, the economics of producing from some wells may change as a result of lower prices, which could result in a suspension of production by the Company. No assurance can be given that crude oil and natural gas prices will be sustained at levels which will enable the Company to operate profitably. From time to time the Company may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

## **Title Matters**

There is no guarantee that an unforeseen defect in title, changes in laws or change in their interpretation, performance of prior or existing operator companies or political events will not arise to defeat or impair the claim of the Company to its properties which could result in a material adverse effect on the Company, including a reduction in revenue.

## **Risks of Foreign Operations**

The Company is subject to political, economic, and other uncertainties, including, but not limited to, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations, exchange controls, and royalty and tax increases. The Company's operations may also be adversely affected by laws and policies of United States and Australia affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's operations in the United States, the Company may be subject to the exclusive jurisdiction of United States' courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Australia or enforcing Australian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and production activities in United States and Australia could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

The Company's business, financial condition, results of operations, and the value of its Ordinary Shares could also be materially adversely affected by changes in government policies and legislation or social instability and other factors which are not within the control of the Company including, among other things, the risks of terrorism, civil strikes, abduction, renegotiation or nullification of existing concessions and contracts, economic sanctions, the imposition of specific drilling obligations, and the development and abandonment of fields.

Any termination, expiration or suspension of the Company's oil and gas contracts or the underlying concessions or licenses to which they relate would have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

## **Foreign Subsidiaries**

The Company conducts all of its operations through wholly-owned subsidiaries. Therefore, to the extent of these holdings, the Company will be dependent on the cash flows of such subsidiaries to meet its obligations. The ability of such subsidiaries to make payments to the Company may be constrained by certain factors including the level of taxation, particularly corporate profits and withholding taxes, in the countries in which they operate.

## **Legal System**

Solimar is incorporated under the laws of Australia; however, Solimar carries on all of its material operations in California. Accordingly, the Company is subject to the legal systems and regulatory requirements of both jurisdictions with a variety of requirements and implications for shareholders of the Company. Exploration and development activities outside Australia may require protracted negotiations with host governments, regulatory bodies and other third parties. If a dispute arises, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries, to the jurisdiction of Australia.

Furthermore, some of the directors and officers of the Company reside outside of Australia. Some or all of the assets of those persons may be located outside of Australia. It may not be possible to collect from the Company or enforce judgments obtained in courts in Australia predicated on the civil liability provisions of Australian securities legislation against the Company, the directors or officers of the Company. Moreover, it may not be possible to effect service of process within Australia upon the directors or officers of the Company.



## **Competition**

The crude oil and natural gas industry is intensely competitive and the Company competes with other companies which possess greater technical and financial resources, including seismic equipment and personnel, drilling equipment and personnel and transportation equipment and personnel. Many of these competitors not only explore for and produce crude oil and natural gas but, also carry on refining operations and market petroleum and other products on an international basis. Because of their geographic diversity, larger and more complex assets, integrated operations and greater resources, some of these competitors may be better able to compete on the basis of price and to bear the economic risks inherent in all phases of the energy industry. Further, the Company's ability to implement its business strategy will be dependent upon its ability to evaluate and select suitable opportunities and consummate transactions in a highly competitive environment. Crude oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and invasion of water into producing formations.

Technological advancements in the oil and gas industry are common and rapid and competitors with greater technical and financial resources than the Company will be in a better position to implement these advantages. Competition could either force the Company to implement new technologies at a substantial cost or leave the Company at a competitive disadvantage due to the utilization of obsolete technologies.

## **Fluctuations in Foreign Currency Exchange Rates**

All of the Company's operations are located in the United States and operating and capital costs are generally incurred in Australian and United States dollars. Fluctuations in the Australian dollar and United States dollar exchange rate may cause a negative impact on revenue and costs and could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

To the extent that the Company is required to hold currency positions in United States dollars, there is a risk from foreign exchange fluctuations. If the exchange rate of the United States dollar fluctuates substantially, or the rate of inflation in such the United States materially increases, historic financial statements of the Company may not accurately reflect the Australian dollars value of its assets or operations.

Such foreign exchange risk could materially adversely affect the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

## **Insurance**

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases, and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. Although the Company has obtained insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's business, financial condition, results of operations, and the value of its Ordinary Shares.

The Company may be subject to certain events beyond its control which may have a material adverse effect on the Company's business, results of operation, financial condition, or the value of its Ordinary Shares.

The Company's projects may be adversely affected by risks outside the control of the Company including labour unrest, civil disorder, war, acts of terrorism, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

## **Conflicts of Interest**

Certain of the directors and officers of the Company are also directors and officers of other oil and gas companies involved in natural resource exploration and development, which may in the future be involved in transactions with the Company, and conflicts of interest may arise between their duties as officers of the Company and directors and as officers and directors of such other companies.

## **Public Market Risk**

There can be no assurance that an active trading market in the Company's securities will be sustained. The market price for the Company's securities could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of the Company's peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the securities of the Company. The stock market has from time to time experienced extreme price and volume fluctuations, particularly in the oil and gas sector, which have often been unrelated to the operating performance of particular companies.

## **Concerns about Climate Change**

There is an ongoing effort to assess and quantify the effects of climate change and the potential human influences on climate. Various United States and foreign jurisdictions, including the United States federal government and the state of California, have adopted legislation, regulations or policies that seek to control or reduce the production, use or emissions of "greenhouse gases" ("GHG"s), to control or reduce the production or consumption of fossil fuels, and to increase the use of renewable or alternative energy sources, and such measures are pending in other jurisdictions. The uncertain outcome and timing of existing and proposed international, national, and state measures intended to reduce GHGs make it difficult to predict their business impact. However, the Company could face risks of delays in development projects, increases in costs and taxes and reductions in the demand for and restrictions on the use of its products as a result of ongoing GHG reduction efforts.

## **Recent Global Financial Conditions**

Recent global financial conditions have been subject to increasing volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to it. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the Ordinary Shares could continue to be adversely affected.

## **DIVIDENDS**

Solimar has not paid any dividends on the outstanding Ordinary Shares. The Board of Directors of Solimar will determine the actual timing, payment and amount of dividends, if any, that may be paid by Solimar from time to time based upon, among other things, the level of cash flow, results of operations and financial condition, the need for funds to finance ongoing operations and other business considerations as the Board of Directors of Solimar considers relevant, including the satisfaction of the liquidity and solvency tests imposed by the Corporations Act for the declaration and payment of dividends.

## DESCRIPTION OF CAPITAL STRUCTURE

### Ordinary Shares

The Company is authorized to issue an unlimited number of Ordinary Shares. As of October 31, 2014, 67,672,755 Ordinary Shares were issued and outstanding (67,672,755 Ordinary Shares as at June 30, 2014).

Holders of Ordinary Shares are entitled to receive notice of any meetings of shareholders and attend and cast one vote per Ordinary Share at all such meetings. Holders of Ordinary Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Ordinary Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Ordinary Shares are entitled to receive on a pro rata basis any such dividends declared by Board at its discretion from legally available funds. Upon the liquidation, dissolution or winding-up of the Company, holders of Ordinary Shares are entitled to receive, on a pro rata basis, the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the Ordinary Shares with respect to dividends or liquidation. The Ordinary Shares do not carry any pre-emptive, subscription, redemption or conversion rights.

### June Debentures

The Company was unable to refinance the principal amount of the June Debentures in order to repay the principal and interest owing on the June Debentures and also did not generate enough cash from operations to meet this obligation. As a result, the Company is in default under the terms of the June Debentures.

The Company received a Notice of Default from Computershare Trust Company of Canada on 24 July 2014, in its capacity as the Trustee regarding the June Debentures. The notice related to the Company's failure to pay interest and principal 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 in negotiations with the holders of the June Debentures.

The June Debenture holders have first priority security over all of the assets of the Company and its subsidiaries. There is no assurance that the negotiations with the June Debenture holders will be successful and the June Debenture holders may instruct the trustee to enforce payment by the Company of the principal and interest owing on the June Debentures. There is no assurance that the June Debenture holders will not instruct the trustee to proceed with insolvency, bankruptcy, liquidation or other judicial proceedings to realize on such security interest.

The offering comprised the issue of 80, C\$50,000 par value convertible unsecured senior debentures. On January 31, 2013, in connection with the extension of the June debentures the Company announced that it had granted first priority security to such debenture holders over all of the assets of the Company and its subsidiaries and that it had paid the extension fee of C\$250,000 the debenture holders on a pro-rata basis. The maturity date for the debentures was extended to July 31, 2014.

Each Debenture shall bear interest from (i) the date of issue of such Debenture to June 30, 2013 at the rate of 11% per annum and (ii) July 1, 2013 at the rate of 20% per annum (with 16% thereof being payable on each Interest Payment Date and the remaining 4% thereof being accrued into the principal, payable on the Maturity Date, payable quarterly in arrears. The Company has the power to elect whether to pay the interest in cash or in Ordinary Shares at a price equal to a 10% discount to the volume weighted average trading price of the Ordinary Shares for the 10 trading days immediately preceding the applicable deadline for delivery of the share interest payment notice to holders of Debentures. This election to pay the interest in shares is only valid when the share price is above C\$0.05 (5 cents).

The Debentures will be convertible into Ordinary Shares at the option of the holder at any time prior to: (i) close on the maturity date (as defined therein); or (ii) close on the business day immediately preceding the date specified by the Company for redemption; or (iii) if subject to a change of control, close on the business day immediately preceding the change of control purchase date which is the date which is 30 days from when the Company notifies the holders of the Debentures of the change of control; at a conversion price equal to C\$0.10 per Ordinary Share (subject to adjustments).

The Company has the right to accelerate the maturity of the Debentures once the Company's share price is at least 200% of the Conversion Price (C\$0.10 at the time of issue) per Ordinary Share for 21 consecutive trading days on the TSXV or ASX. The accelerated maturity will take place 30 days after the Company gives notice to the Debenture holders.

On maturity, a holder may, at its option and subject to the provisions of the indenture, regulatory approval and applicable securities legislation, require the Company to satisfy its obligation to pay all or a portion of the aggregate principal amount of the Debentures due on maturity, together with all accrued but unpaid interest thereon, by issuing and delivering that number of freely tradeable Ordinary Shares obtained by dividing C\$50,000 by 95% of the volume weighted average trading price of the Ordinary Shares on the TSXV for the 21 consecutive trading days ending five trading days preceding the maturity date. An election to satisfy the principal through the issue of shares would also only be valid when the share price is above C\$0.05.

Within 30 days of a change of control of the Company, the Company must notify the Trustee (and the Trustee will notify Debenture holders) that a change of control has occurred, provide information in relation to the change of control and make an offer to acquire the then outstanding Debentures.

The offer to acquire the Debentures still in existence must be in cash and at a price equal to 105% of the principal amount of the Debentures plus accrued and unpaid interest through to the Maturity Date.

Once 67% or more of the aggregate principal amount of outstanding Debentures have accepted the offer following the change of control, the Company has the right to compulsorily acquire those Debentures still outstanding whose holders have not accepted the offer following the change of control

On August 16, 2013, Solimar announced that it had reached an agreement with holders of June Debentures. After nearly one month of negotiations, the holders of 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 condition that the debenture indenture be amended and restated to provide, among other things, as follows:

- the interest payable on the June Debentures increases to 20% per annum effective July 1, 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 is brought forward to January 31, 2014. However, at the Company's option and upon the Company and its subsidiaries providing the holders of 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 the extension, the maturity date may be extended to July 31, 2014;
- the Company pays a loan modification fee of C\$500,000, payable proportionately to the holders of the June Debentures 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 debenture indenture was amended and restated as of August 14, 2013 to reflect the foregoing conditions.

## MARKET FOR SECURITIES

### Ordinary Shares

The following table sets forth the price range and trading volumes of the Ordinary Shares on the TSXV for the periods indicated (as reported by the TSXV). The Ordinary Shares trade under the symbol "SXS" on the TSXV.

Period	High	Low	Volume
<b>2013</b>			
July	\$0.025	\$0.01	7,131,138
August	\$0.025	\$0.01	41,586,333
September	\$0.02	\$0.01	30,461,427
October	\$0.01	\$0.005	13,477,930
November	\$0.01	\$0.005	6,073,400
December – Pre consolidation	\$0.005	\$0.005	6,996,712
December – Post consolidation	\$0.10	\$0.065	293,762
<b>2014</b>			
January	\$0.07	\$0.03	478,640
February	\$0.08	\$0.045	2,927,874
March	\$0.07	\$0.045	907,697
April	\$0.06	\$0.04	838,955
May	\$0.07	\$0.035	1,084,956
June	\$0.045	\$0.03	343,289
July	\$0.04	\$0.03	1,368,705
August	\$0.03	\$0.03	35,413
September	\$0.03	\$0.01	892,760
October 1 – 30	\$0.02	\$0.01	4,704,899

## PRIOR SALES

The following table summarizes the issuances of unlisted securities for the year ended June 30, 2014: The shares are listed so they do not need to be included.

Issue Date	Number of Securities	Type of Securities of Solimar	Issue / Exercise Price
27 September 2013 (1)	1,129,388	Unlisted warrants	\$1.25 / \$2.50
5 December 2013 (2)	203,947	Unlisted warrants	\$1.25 / \$2.50
9 May 2014 (3)	2,789,231	Unlisted warrants	\$0.065
19 June 2014 (4)	1,061,539	Unlisted warrants	\$0.065

**Notes:**

- (1) Issued as part of non-brokered placement. Each unit issued at a price of \$0.015 was comprised of one fully paid share and one unlisted warrant exercisable at \$0.05 for the first 12 months and \$0.10 for the subsequent 12 months. The exercise prices were adjusted by a factor of 25 when the Company undertook a 25:1 share consolidation in December 2013.
- (2) Issued as part of non-brokered placement. Each unit issued at a price of \$0.015 was comprised of one fully paid share and one unlisted warrant exercisable at \$0.05 for the first 12 months and \$0.10 for the subsequent 12 months. The exercise prices were adjusted by a factor of 25 when the Company undertook a 25:1 share consolidation in December 2013.
- (3) Issued as part of non-brokered placement. Each unit issued at a price of \$0.065 was comprised of one fully paid share and one unlisted warrant exercisable at \$0.065 for two years.
- (4) Issued as part of non-brokered placement. Each unit issued at a price of \$0.065 was comprised of one fully paid share and one unlisted warrant exercisable at \$0.065 for two years.

**ESCROWED SECURITIES**

As at the date hereof, none of the Company's securities are subject to escrow or subject to contractual restrictions on transfer.

**DIRECTORS AND OFFICERS**

The following table sets forth the names and municipalities of residence of the current directors and executive officers of the Company, their respective positions and offices with the Company and date first appointed or elected as a director and/or officer and their principal occupation(s) within the past five years.

<b>Name and Place of Residence</b>	<b>Office Held</b>	<b>Principal Occupation During Last Five Years</b>	<b>Date First Appointed</b>
Mr Frank Petruzzelli, BBus (Acc), FNTAA, MIPA Melbourne, Victoria, Australia	Non-Executive Chairman	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 Company 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 was previously the Non-Executive Chairman of Golden Gate Petroleum Limited. Frank is a Fellow of the National Tax and Accountants Association, a Fellow of the Institute of Public Accountants and a registered Tax Agent.	29/06/07
Mr Jason Bednar, CA <sup>(1)</sup> (2) Calgary, Alberta, Canada	Director and Acting Chief Executive Officer	Jason is a chartered accountant with expertise in the financial and regulatory management of oil and gas companies listed in the TSX, TSX Venture Exchange (TSXV) and American Stock Exchange (AMEX). Mr Bednar is also a director of Canacol Energy Ltd, Charlotte Resources Ltd, Mobius Resources Inc. and Tilting Capital Corp. Mr Bednar is the former CFO and Director of Sagres Energy Inc., an international oil and gas exploration company, former CFO of Pan Orient Energy Corp, a South East Asia Exploration company, and former Chairman of Gallic Energy Ltd. Mr Bednar began his career in the chartered accountancy firm of Brown Smith Owen in 1993 before moving into financial controller roles at oil production companies. Mr Bednar holds a Bachelor of Commerce degree from the University of Saskatchewan.	10/10/11

Name and Place of Residence	Office Held	Principal Occupation During Last Five Years	Date First Appointed
Mr Mark Elliott <sup>(1)(2)</sup> Melbourne, Victoria, Australia	Non-Executive Director	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.	29/06/07
Dr Charle Gamba, MSc, PhD <sup>(1)(2)(3)</sup> Houston, Texas, United States	Non-Executive Director	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 Horizon Petroleum PLC, Miramar Hydrocarbons Ltd., Petro-Victory Energy Corp and Ikkuma Resources Corp. He is a past Vice President of Exploration for Occidental Oil and Gas Company in Colombia. Charle was also the Chief Geologist with Oxy in Ecuador and Chief Geoscientist for Oxy in Qatar. He is a geologist with over 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.	12/09/11
Mr William Satterfield BS, MA <sup>(3)</sup> Honolulu, Hawaii, United States	Non-Executive Director	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.	01/08/12
Chris Ritchie, B Bus(Acc), FCPA FGIS Melbourne, Victoria, Australia	Company Secretary and Chief Financial Officer	Chris is a CPA and Company Secretary with over 25 years of experience in ASX listed companies. Chris has experience in the energy & resources sector with several of Australia's largest engineering contractors and service 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. His principal occupation for the past five years has been as an accountant.	01/03/14

**Notes:**

- (1) Member of the Audit Committee.
- (2) Member of the Remuneration Committee.
- (3) Member of the Reserves Committee.

The directors listed above will hold office until the next annual meeting of the Company or until their successors are elected or appointed.

As at October, 31, 2014, the directors and officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over approximately 2,479,629 Ordinary Shares or approximately 3.7 percent of the issued and outstanding Ordinary Shares. Information as to holdings of insiders of the Company may be found on [www.sedi.ca](http://www.sedi.ca).

### **Corporate Cease Trade Orders or Bankruptcies**

No director, officer or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, within 10 years before the date of this Annual Information Form, has been, a director or executive officer of any Company that, while that person was acting in that capacity:

- was the subject of a cease trade or similar order, or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the corporation being the subject of a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- within a year of that person ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Personal Bankruptcies**

No director, officer or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has within 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

### **Penalties or Sanctions**

No director, officer or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to:

- a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

Certain directors of Solimar are directors of, or may become associated with, other natural resource companies that acquire interests in oil and gas properties. Such associations may give rise to conflicts of interest from time to time. Such a conflict poses the risk that Solimar may enter into a transaction on terms which place Solimar in a worse position than if no conflict existed. The officers and directors of Solimar are required by law to act honestly and in good faith with a view to the best interests of Solimar and its shareholders and to disclose any interest which they may have in any project or opportunity of Solimar, but each officer or director has the identical obligation to other companies for which such officer or director serves as an officer or director.



## PROMOTERS

There are no persons or companies that are, or have been within the two years immediately preceding the date of this Annual Information Form, a promoter of Solimar or subsidiary of Solimar.

## AUDIT COMMITTEE INFORMATION

The Audit Committee is a committee of the board of directors of the Company to which the board of directors delegates its responsibility for oversight of the financial reporting process. The Audit Committee is also responsible for managing, on behalf of the shareholders, the relationship between the Company and the external auditor.

Pursuant to National Instrument 52-110 *Audit Committees* ("NI 52-110") the Company is required to disclose certain information with respect to its Audit Committee, as summarized below.

### Audit Committee Terms of Reference

The Company must, pursuant to NI 52-110, have a written charter which sets out the duties and responsibilities of its Audit Committee. The terms of reference of the Audit Committee is attached hereto as Schedule B.

### Audit Committee Composition

The following are the members of the Audit Committee:

Mark Elliott	Independent <sup>(2)</sup>	Financially Literate <sup>(2)</sup>
Charle Gamba	Independent <sup>(2)</sup>	Financially Literate <sup>(2)</sup>
Jason Bednar <sup>(1)</sup>	Independent <sup>(2)</sup>	Financially Literate <sup>(2)</sup>

#### Notes:

- (1) Chairman.
- (2) As defined by NI 51-102.

### Relevant Education and Experience

All of the members of the Audit Committee have been either directly involved in the preparation of the financial statements, filing of quarterly and annual financial statements, dealing with auditors, or as a member of the Audit Committee. All members have the ability to read, analyze and understand the complexities surrounding the issuance of financial statements.

See the summaries of experience and education under "*Directors and Officers*" for each of the members of the Audit Committee.

### Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied on:

- a) the exemption in section 2.4 of NI 52-110 (De Minimis Non-audit Services);
- b) the exemption in section 3.2 of NI 52-110 (Initial Public Offerings);
- c) the exemption in section 3.4 of NI 52-110 (Events Outside Control of Members);
- d) the exemption in section 3.5 of NI 52-110 (Death, Disability or Resignation of Audit Committee Members); or
- e) an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

### Reliance on the Exemption in Subsection 3.3(2) or Section 3.6

At no time since the commencement of the Company's most recently completed financial year has the Company relied on:

- a) the exemption in subsection 3.3(2) of NI 52-110 (Controlled Companies); or
- b) the exemption in section 3.6 of NI 52-110 (Temporary Exemption for Limited and Exceptional Circumstances).

### Reliance on Section 3.8

At no time since the commencement of the Company's most recently completed financial year has the Company relied section 3.8 of NI 52-110 (Acquisition of Financial Literacy).

### Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

### Pre-Approval Policies and Procedures

The Audit Committee had adopted specific policies and procedures for the engagement of non-audit services as described above under the heading "External Auditors" in the terms of reference of the Audit Committee is attached hereto as Schedule C.

### External Auditor Service Fees

The aggregate fees billed by the Company's external auditors in each of the last two fiscal years for audit and other fees are as follows:

Financial Year Ending	Audit Fees <sup>(1)</sup>	Audit Related Fees <sup>(2)</sup>	Tax Fees <sup>(3)</sup>	All Other Fees <sup>(4)</sup>
2013	A\$150,009	Nil	Nil	Nil
2014	A\$76,713	Nil	Nil	Nil

**Notes:**

- (1) Audit fees include fees necessary to perform the annual audit and quarterly reviews of the Company's consolidated financial statements. Audit fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits. The fees for 2013 include A\$63,009 of fees that related to the 2012 audit and were not correctly accrued for in that year.
- (2) Audit-related fees include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) Tax fees include fees for all tax services other than those included in audit fees and audit-related fees. This category includes fees for tax compliance, tax planning and tax advice.
- (4) All other fees include fees for products and services provided by the Auditor, other than the services reported above.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The company is in default under the terms of the June Debentures. The June Debenture holders have first priority security over all of the assets of the Company and its subsidiaries. There is no assurance that the negotiations with the June Debentureholders will be successful and the June Debentureholders may instruct the trustee to enforce payment by the Company of the principal and interest owing on the June Debenture. There is no assurance that the June Debentureholders will not instruct the trustee to proceed with insolvency, bankruptcy liquidation or other judicial proceedings to realize on such security interest. See *"Risk Factors"*.

There are no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during legal proceedings material to the Company to which the Company is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Company to be contemplated during the financial year ended June 30, 2014. Other than as disclosed above, there are no material legal proceedings to which the Company is a party or of which any of its property is the subject and there are no material proceedings known to the Company to be contemplated.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as may be disclosed in the Annual Information Form, the Company is not aware of any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or executive officer or any shareholder holding more than ten percent of the Ordinary Shares or any associate or affiliate of any of the foregoing in any transaction within the three most recently completed financial years or during the current financial year or any proposed or ongoing transaction of the Company which has or will materially affect the Company.

## **TRANSFER AGENT AND REGISTRARS**

Solimar's transfer agent and registrar in Australia is Advanced Share Registry Services, 150 Stirling Highway, Nedlands, Western Australia, Australia, 6009.

Solimar's transfer agent and registrar in Canada is Computershare Investor Services Inc., at its principal offices in Calgary, Alberta.

## **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business, there are no material contracts entered into during the financial year ended June 30, 2014 (or that were effective in the financial year ended June 30, 2014) that are still in effect.

## **INTEREST OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by the Company during, or related to, the Company's most recently completed financial year other than Sproule, the Company's independent reserves evaluators, and Grant Thornton Audit Pty Ltd, the Company's auditors.

As at the date of hereof, the principal reserve evaluators of Sproule, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

Grant Thornton Audit Pty Ltd issued the auditor's report for the Company's annual financial statements as at and for the year ended June 30, 2014. As at the date hereof, the directors and staff of Grant Thornton Audit Pty Ltd, the external auditors of the Solimar Energy Limited consolidated group, did not beneficially own any of the outstanding Ordinary Shares and have complied with the independence requirements of the Corporations Act and *Accounting Professional and Ethical Standards Board Statement APES 110 Code of Ethics for Professional Accountants*.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company may be found on SEDAR at [www.SEDAR.com](http://www.SEDAR.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, if applicable, is contained in the Company's information circular for its most recent annual meeting of shareholders.

Additional information is provided in the Company's comparative financial statements and management's discussion and analysis for the year ended June 30, 2014, which are also available on SEDAR.

## SCHEDULE A

**This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").**

- 1 Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form.
- 2 The report referred to in item 3 of section 2.1 of NI 51-101 must in all material respects be as follows:

### **REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE (FORM 51-101F3)**

Management of Solimar Energy Limited (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at June 30, 2014, estimated using forecast prices and costs.

The Reserves Committee of the board of directors of the Company has reviewed the assets, data and position of the Company as of June 30, 2014 and has determined that, as of the last day of the Company's most recently completed financial year, the Company had no reserves.

An independent qualified reserves evaluator has not been retained to evaluate the Company's reserves data as the Company has no reserves as of the last day of the Company's most recently completed financial year and no report of an independent qualified reserves evaluator will be disclosed by the Company for the period from July 1, 2013 to June 30, 2014.

The Reserves Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved:

- a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- b) the Company not filing Form 51-101F2 which is the report of the independent qualified reserves evaluators on the reserves data because the Company has no reserves; and
- c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery. Therefore, based on information available at June 30, 2014, the Reserves Committee of the board of directors of the Company has determined that the Company had no reserves at that time.

(signed) "Jason Bednar"

**Jason Bednar, acting Chief Executive  
Officer and Director**

(signed) "Chris Ritchie"

**Chris Ritchie, Chief Financial Officer**

(signed) "Frank Petruzzelli"

**Frank Petruzzelli, Chairman and  
Director**

(signed) "Mark Elliott"

**Mark Elliott, Director**

Dated: October 31, 2014

**SCHEDULE B**  
**AUDIT COMMITTEE TERMS OF REFERENCE**

### **Audit Committee Terms of Reference**

The Audit Committee is a committee of the board of directors (the “**Board**”) of Solimar Energy Limited to which the Board delegates its responsibility for oversight of the financial reporting process. The Audit Committee is also responsible for managing, on behalf of the shareholders, the relationship between the Company and the external auditor.

Pursuant to National Instrument 52-110 *Audit Committees* (“**NI 52-110**”), the Company is required to disclose certain information with respect to its Audit Committee, as summarized below.

#### **Audit Committee Terms of Reference**

The Company must, pursuant to NI 52-110, have a written charter which sets out the duties and responsibilities of its Audit Committee. The terms of reference of the Audit Committee are reproduced below.

##### *Role and Objective*

The Audit Committee is a committee of the Board to which the Board has delegated its responsibility for oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for Board approval, the audited financial reports and other mandatory disclosure releases containing financial information. The objectives of the Committee, with respect to the Company are as follows:

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

##### *Composition*

The Committee shall be composed of at least three individuals appointed by the Board from amongst its members, all of which members will be independent (within the meaning of NI 52-110) unless the Board determines to rely on an exemption in NI 52-110. “Independent” generally means free from any business or other direct or indirect material relationship with the Company that could, in the view of the Board, reasonably interfere with the exercise of the member's independent judgment.

A quorum shall be a majority of the members of the Committee.

All of the members must be financially literate within the meaning of NI 52-110 unless the Board has determined to rely on an exemption in NI 52-110. Being “financially literate” means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements.

##### *Meetings*

The Audit Committee shall meet at least two times per year and/or as deemed appropriate by the Audit Committee Chair. As part of its job to foster open communication, the Audit Committee will meet at least annually with management and the external auditors. The Audit Committee will also report to the Board at least annually on all matters relevant to the discharge of its role and responsibilities during the period covered since its last report.

Agendas, with input from management, shall be circulated to Audit Committee members and relevant management personnel along with background information on a timely basis prior to the Audit Committee meetings.

The minutes of the Audit Committee meetings shall accurately record the decisions reached and shall be distributed to the Committee members with copies to the Board, the Chief Financial Officer or such other officer acting in that capacity, and the external auditor.

The Chief Executive Officer and the Chief Financial Officer or their designates shall be available to attend at all meetings of the Committee upon the invitation of the Committee.

Any other staff as appropriate to provide information to the Committee shall attend meetings upon invitation by the Committee.

#### *Mandate and Responsibilities*

1. undertake annually a review of this mandate and make recommendations to the Board as to proposed changes;
2. satisfy itself on behalf of the Board with respect to the Company's internal control systems;
3. review the Company's financial reports, management discussion and analysis ("**MD&A**"), any annual earnings, interim earnings and press releases before the Company publicly discloses this information and any reports or other financial information (including quarterly or semi-annual financial reports and ASX 5B Appendices), which are submitted to any governmental body, or to the public, including any certification, report, opinion, or review rendered by the external auditors; the process should include but not be limited to:
  - (a) reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial reports;
  - (b) reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
  - (c) reviewing accounting treatment of unusual or non-recurring transactions;
  - (d) ascertaining compliance with covenants under loan agreements;
  - (e) reviewing financial reporting relating to asset retirement obligations;
  - (f) reviewing disclosure requirements for commitments and contingencies;
  - (g) reviewing adjustments raised by the external auditors, whether or not included in the financial reports;
  - (h) reviewing unresolved differences between management and the external auditors;
  - (i) obtain explanations of significant variances with comparative reporting periods; and
  - (j) determine through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed;
  - (k) review the financial reports and related information included in prospectuses, MD&A, information circular-proxy statements and annual information forms;
4. with respect to the appointment of external auditors by the Board:
5. require the external auditors to report directly to the Committee;
  - (a) review annually the performance of the external auditors who shall be ultimately accountable to the Board and the Committee as representatives of the shareholders of the Company;
  - (b) obtain annually, a formal written statement of external auditors setting forth all relationships between the external auditors and the Company and confirming their independence from the Company;
  - (c) review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors;
  - (d) be directly responsible for overseeing the work of the external auditors engaged for the purpose of issuing an auditors' report or performing other audits, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting;



- (e) review management's recommendation for the appointment of external auditors and recommend to the Board appointment of external auditors and the compensation of the external auditors;
  - (f) review the terms of engagement of the external auditors, including the appropriateness and reasonableness of the auditors' fees;
  - (g) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
  - (h) take, or recommend that the Board take, appropriate action to oversee the independence of the external auditors;
6. review all public disclosure containing audited or unaudited financial information before release;
  7. review financial reporting relating to risk exposure;
  8. satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information from the Company's financial reports and periodically assess the adequacy of those procedures;
  9. review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company;
  10. review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial reports of the Company and its subsidiaries;
  11. review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Company's external auditors and consider the impact on the independence of the auditors; The pre-approval requirement is waived with respect to the provision of non-audit services if:
    - (a) the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent (5%) of the total amount of revenues paid by the Company to its external auditors during the fiscal year in which the non-audit services are provided;
    - (b) such services were not recognized by the Company at the time of the engagement to be non-audit services; and
    - (c) such services are promptly brought to the attention of the Committee by the Company and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Committee;

provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval, such authority may be delegated by the Committee to one or more independent members of the Committee;
  12. review any other matters that the Audit Committee feels are important to its mandate or that the Board chooses to delegate to it;
  13. with respect to the financial reporting process:
    - (a) in consultation with the external auditors, review with management the integrity of the Company's financial reporting process, both internal and external;
    - (b) consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting;
    - (c) consider and approve, if appropriate, changes to the Company's auditing and accounting principles and practices as suggested by the external auditors and management;
    - (d) review significant judgments made by management in the preparation of the financial reports and the view of the external auditors as to appropriateness of such judgments;

- (e) following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information;
- (f) review any significant disagreement among management and the external auditors regarding financial reporting;
- (g) review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented;
- (h) review the certification process;
- (i) establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
- (j) establish procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

#### *Authority*

Following each meeting, in addition to a verbal report, the Committee should report to the Board by way of providing copies of the minutes of such Committee meeting at the next Board meeting after a meeting is held (these may still be in draft form).

Supporting schedules and information reviewed by the Committee shall be available for examination by any director.

The Committee shall have the authority to investigate any financial activity of the Company and to communicate directly with the internal and external auditors. All employees are to cooperate as requested by the Committee.

The Committee may retain, and set and pay the compensation for, persons having special expertise and/or obtain independent professional advice to assist in fulfilling its duties and responsibilities at the expense of the Company.