

11 January, 2012

RELEASE TO ASX AND CANADA

Hydrocarbon flows from first zones tested at Paloma

Highlights

- **Two Production tests have been conducted so far on two of the eight potential hydrocarbon pay zones identified, the Fruitvale Shale and Lower Stevens Sandstone formations.**
- **Hydrocarbons have flowed to surface, unassisted at a maximum rate of 1.9 MMCFD of gas and 226 BOPD of light oil/condensate.**
- **The tests have been limited by downhole mechanical difficulties due to debris obstructing perforations and hindering the flow of hydrocarbons.**
- **A coiled tubing workover unit has been mobilised with the aim to clean up the wellbore before resuming testing of the Lower Stevens Sandstone formation.**

Commenting on the testing of the Paloma Deep ST/2 well, Solimar CEO John Begg said:

"The results at this stage, although preliminary, are very promising and we are hopeful of achieving stabilised flows at commercial rates once the mechanical issues can be overcome. It is particularly pleasing that hydrocarbons have flowed to surface without stimulation of the test zones. Given also the number of additional zones yet to be tested in the well and the Company's expanded land position in the play (details of which will be published in due course) the Paloma project could rapidly evolve as a significant field development and production and cash generating asset for the Company."

Solimar Energy Limited (ASX: SGY, TSXV: SXS) is pleased to provide the following update regarding the ongoing production testing operations at its Paloma Deep discovery, located in the San Joaquin Basin, onshore California.

Two production tests have been conducted to date, initially targeting two of the eight zones previously identified (refer to diagram below), being the Fruitvale Shale and Lower Stevens Sandstone formations. Hydrocarbons have flowed to surface, unassisted at maximum rates of 1.9 MMCFD (million cubic feet per day) of gas, and 226 BOPD (barrels of oil per day) of light oil/condensate. The tests have been limited by downhole mechanical difficulties, due to debris obstructing and hindering the flow of hydrocarbons and preventing stabilised rates of production being achieved. At this stage these operational issues have also prevented the joint venture from determining which interval delivered the produced hydrocarbons.

The results so far are very encouraging and a coiled-tubing workover unit has been mobilised to the well site with the aim of cleaning up the wellbore before resuming testing of the Lower Stevens Sandstone Formation.

The well is operated by Neon Energy Limited (ASX: NEN) with a 75% working interest in the project. Solimar is participating with a 25% working interest. Pursuant to the terms of a Farmout Agreement, Solimar is paying a promoted share of the dry hole and completion/testing costs, up to an agreed cost cap.

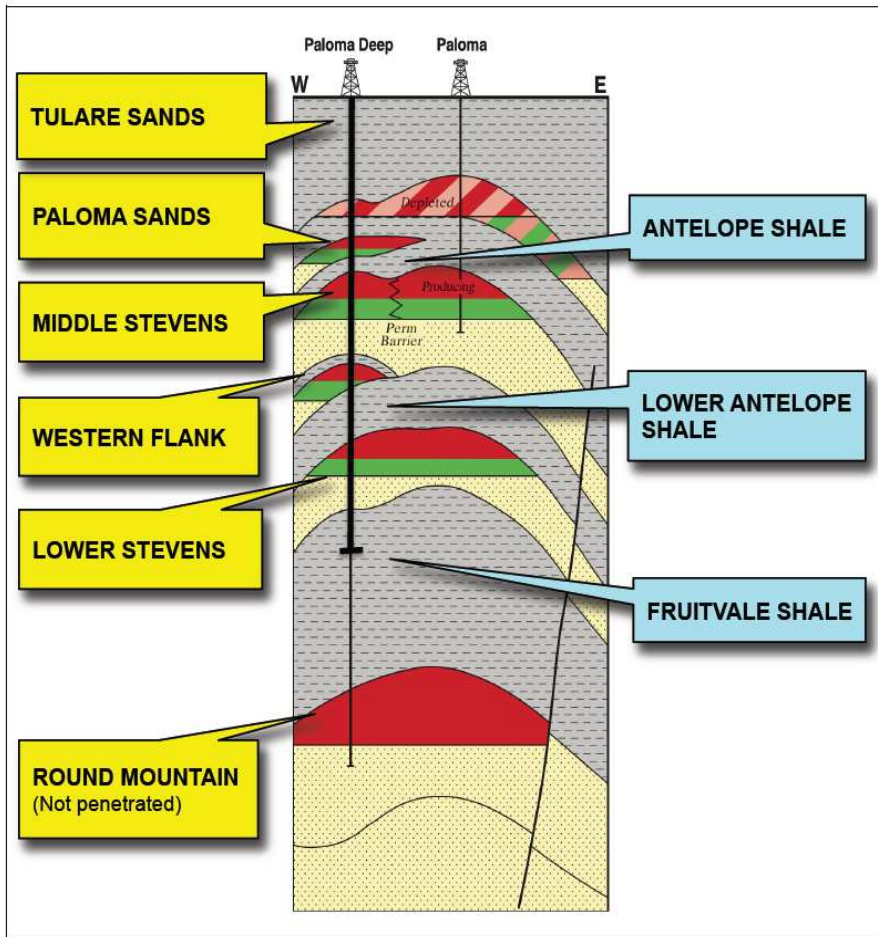
Further updates will be provided as the testing program progresses.

Sincerely,

A handwritten signature in black ink, appearing to be "John Begg".

John Begg
Chief Executive Officer
Solimar Energy Limited

For further information please contact: Solimar Energy +61 3 9347-2409



Schematic cross section across the Paloma Deep location and Paloma Oil and Gas Field