

QUARTERLY REPORT

KEY RESULTS

Salinas Basin:

North San Ardo:

- Interim Production target of 1,000 bopd achieved during quarter.
- Revenues increased significantly and will grow further in the next quarter.
- Production facility capable of 2,000 bopd officially opened in December 2007.
- More development drilling to further increase production.

Paris Valley:

- Drilling program to commence with vertical appraisal well.
- Planning and permitting for 2D seismic program well underway.
- Salinas targeting 25 % recovery from resource of 100 MMBLS oil in place.

McCool Ranch:

- Testing of the horizontal well Capps 1-22H has produced oil accompanied by water. Remedial work is being planned to isolate the water zone and better realise the oil productive potential of the well.
- 300 barrels of oil produced in 10 days of testing.

San Joaquin Basin:

- Salinas has matured a number of 10 million to 25 million barrel potential light oil prospects for drilling.
- A farm-out campaign is underway prior to commencement of drilling activities. The Company expects to retain 40% to 50% operated interests with partners funding majority of the well costs. One farm-in partner has already been secured.

Corporate:

- Positive operating cash flows from oil production from December 2007 with year to date sales revenues in excess of \$3.6 million.
- Cash on hand at 31 December of \$14.7 million with debt of \$2.8 million expected to be repaid prior to the end of the next quarter.
- Maiden operating profit for the six months ended 31 December 2007.
- Management team strengthened with the appointment of two senior USA based industry professionals. Further details will be subject to separate ASX releases.
- Share buy-back announced on 23 January 2008.

OVERVIEW

During the quarter the Company continued to focus on its San Ardo area oil field redevelopment projects. The NSA production facility was officially opened on 6 December 2007 and the Company's interim production target of 1,000 bopd was achieved prior to the end of the year. Planning is well underway for the commencement of drilling additional development wells in the field which will further increase oil production and cash flow.

Salinas also drilled a horizontal well on the McCool Ranch oil field, located less than a mile from NSA. The well was successfully drilled with a 776 feet near horizontal section in the reservoir, but penetrated both oil and water productive zone(s) and, as a result, tested oil with a high water cut. Remedial work is being planned to exclude the inflow of water and allow the well to flow oil at rates nearer to the indicated potential.

Salinas is due to commence the appraisal of Paris Valley, a heavy oil field which has in excess of 100 million barrels of oil in place and in which Salinas is targeting recoverable reserves of at least 25 million barrels. Salinas has completed the initial review of the Paris Valley field and expects to commence the next stage of the work program during this quarter, subject to title clearance and receipt of state and local permits.

The Company has also commenced a farm-out campaign for its southern San Joaquin Basin light oil drilling program. Salinas is offering potential partners up to a 35% working interest in a minimum two well drilling campaign. The drilling program is targeting light oil prospects having the potential for recoverable oil resources in the 10 million to 25 million barrel range.

The Company has also recently participated in drilling the North Yowlumne 2-26 well which is a follow up to the North Yowlumne ST-1 light oil discovery. The well was drilled to a total depth of 13,055 feet and had strong hydrocarbon shows in the primary interval. Production testing commenced in late January. Salinas is not the Operator of the well.

Salinas continues to aggressively pursue a number of other new venture projects onshore California and is quickly becoming one of the most active players in the region. The Company is now one of the top 10 independent producers in California.

PROJECTS

Salinas Basin

North San Ardo Oil Project – (Salinas 100%)

The first stage of the development at NSA is now complete with the permanent facilities now operational. The remaining site works at NSA will be completed during Q1 2008 to support the next development drilling campaign which should commence around March/April 2008. Most of the field's initial horizontal development wells will be drilled from a central pad to save both tie-in times and costs.

Salinas' interim production target of 1,000 bopd was achieved mid December 2007 and the field continues to perform in line with predictions. Due to the nature of heavy oil, water production will increase with time and additional development wells are required both to maintain and increase oil production rates. A total of eight horizontal production wells are planned for the central pad with additional wells being located on a pad further to the north.

Up to 31 December 2007, the field has produced a total of 52,592 barrels. Sales revenues for the first six months of the financial year were \$3.6 million which includes initial production testing revenues.

Paris Valley Oil Field – (Salinas earning 50%)

The Paris Valley field is located six miles from the successful North San Ardo project and contains estimated oil in place of over 100MMbbls. Salinas is targeting recoverable reserves of 25MMbbls.

Field work commenced during the quarter with permitting and seismic planning underway. The program will firstly involve acquisition of 2D seismic followed by drilling two vertical and two horizontal wells. The vertical wells will primarily be used to determine oil quality and to better delineate the less well defined compartments of the field. The horizontal wells will be drilled to determine the productivity of the oil reservoirs based on modern techniques. Timing of the horizontal wells relative to 3D seismic is still being considered.

The current owner of the leases and Salinas' partner in the project, Nations Petroleum, is currently undertaking title verification work which is routinely done in California prior to commencing a large drilling/investment program. The completion of this work is required before Salinas can commence drilling operations and along with receipt of the appropriate permits from California State and local authorities, will ultimately drive the timing of the drilling program.

It is hoped that by applying the modern techniques that Salinas has utilised at NSA, in particular horizontal drilling guided by 3D seismic, that a proportion of the oil in place at Paris Valley, estimated at over 100 million barrels, can be converted to reserves.

McCool Ranch Oil Pool – (Salinas earning 100%)

Testing operations at McCool Ranch have been underway over the past few weeks and have recently been suspended. Initial indications are that the well successfully intersected the Lombardi oil reservoir but also encountered a water bearing zone. The well produced around 600 barrels of fluid per day, however due to the preferential flow of water over heavy oil, production rates were limited to around 30 bopd. A remedial program is being planned to attempt to isolate the water bearing zones in the well in order to get a higher flow rate from the oil bearing section of the reservoir.

Production testing has to date produced some 300 barrels of oil similar in quality to the oil at NSA. Salinas is earning a 100% working interest in the Capps lease covering this part of the McCool field and a 75% net profit interest. Planning has also commenced for future operations in the field including acquisition of seismic and additional wells.

Salinas has also acquired an additional 100% working interest in a lease to the north of the Capps lease which is not subject to any net profit interests and into which the McCool Ranch field may extend.

San Joaquin Basin

South Buena Vista (North Yowlumne) – AMI Area (Salinas 25%)

The North Yowlumne-2 well commenced drilling in October and reached a total depth of 13,055 feet early in December. The well had good hydrocarbon shows across the zone of interest which was encountered at a depth and with a thickness close to Salinas' pre drill predictions. Sand quality did not appear to be as well developed as hoped but strong indications of natural fractures were observed which could enhance reservoir deliverability. It was decided to production test the well and a slotted production liner was run. The Operator of the well commenced a production testing program in late January.

Southern San Joaquin Acreage - (Salinas 100%)

The remaining leases in the southern San Joaquin Basin are currently all held 100% and operated by Salinas. The Company has recently initiated a multi-lease farm out campaign

following the completion of a comprehensive mapping project of the Basin which has involved integrating data from hundreds of wells, thousands of miles of 2D seismic and 13 3D seismic surveys.

Post completion of the farm-out the drilling program will target light oil prospects that have been matured for drilling by Salinas that have potential for recoverable resources of between 10 and 25 million barrels of oil. Target depths range from 7,500 feet to 12,000 feet. Salinas has now acquired the majority of the leases over the prospects and has begun preparation of the drill sites for the Merlot and Osso Bucco prospects in anticipation of securing an additional partner in the drilling. The Company plans to retain 40% to 50% interests in each project with the majority of well costs funded by the farm-in partners.

Most of these leases are already subject to the previously announced Farmout Agreement with Statesman Resources Ltd (TSX: SRR) in which Statesman will fund 37.5% of drilling costs to earn 25% in each drilled lease area. Statesman has also funded its share of the study and back-costs.

Louisiana

Reese - Salinas 25%

The Grainger-1 exploration well commenced drilling on 7 December 2007 and was drilled to the planned total depth of 5,500 feet. The well encountered good reservoir sections but there were no hydrocarbon shows. The well has been plugged and abandoned. Salinas has yet to determine if it will continue with further exploration of this project area.

CORPORATE

At the end of the quarter Salinas had cash on hand of over \$14.7 million. The Company has a debt facility of US\$5M and a draw down of US\$2.5M (A\$2.7 million) was made during the quarter to assist in the funding of the NSA development wells. Subsequent to the draw down, the Company raised \$6.3 million through the issue of 11 million shares at \$0.57 per share to a strategic institutional investor. Additionally, a total of 28.5 million shares were issued pursuant to the conversion of unlisted options, raising some \$8.8 million.

The Company's current cash position, combined with the strong cash flow being generated from NSA places the Company in a strong financial position, allowing it to pursue development of both its existing assets in addition to a number of new venture projects. The Company has also announced an on market buy-back program and is in a strong financial position to pursue a selective buy-back of its securities.

The Company will record its maiden operating profit for the six months ended 31 December 2007 since becoming focused on the oil and gas business. The Company expects to see a significant improvement in the profitability of the business as production increases and operating costs are reduced over the coming months.

Salinas has also strengthened its US based management team with the appointment of two senior industry professionals who will commence with the Company prior to the end of February 2008. Salinas' ability to attract candidates of this calibre in a very competitive environment is an endorsement of the Company's strategy and growth potential.

Enquiries

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Appendix 5B

Mining exploration entity quarterly report

Name of entity

Salinas Energy Limited

ABN

49 002 796 974

Quarter ended ("current quarter")

31 December 2007

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	1,445	2,374
1.2	Payments for (a) exploration and evaluation	(2,402)	(4,763)
	(b) development	(6,527)	(8,554)
	(c) production	(219)	(573)
	(d) administration	(442)	(1,063)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	69	132
1.5	Interest and other costs of finance paid	(1)	(164)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(8,077)	(12,611)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(12)	(33)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	1,233	1,233
	Net investing cash flows	1,221	1,200
1.13	Total operating and investing cash flows	(6,856)	(11,411)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	17,126	17,576
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	2,770	2,770
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	19,896	20,346
	Net increase (decrease) in cash held	13,040	8,935
1.20	Cash at beginning of quarter/year to date	1,679	5,763
1.21	Exchange rate adjustments to item 1.20	33	54
1.22	Cash at end of quarter	14,752	14,752

Payments to directors of the entity and associates of the director

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	118
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	None	

Non-cash financing and investing activities

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows	None
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest	None

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	5,664 (US\$5M)	2,770 (US\$2.5M)
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	1,500
4.2	Development	2,000
Total		3,500

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	674	538
5.2	Deposits at call	14,078	1,141
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		14,752	1,679

Changes in interests in mining tenements

	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1	Preference securities	-	-	
7.2	<i>Changes during quarter</i>	-	-	
7.3	Ordinary securities	241,002,690	229,891,426	
7.4	<i>Changes during quarter</i>			
	Issued pursuant to exercise of \$0.30 unlisted options	27,125,000	17,053,736	\$0.30
	Issued pursuant to exercise of \$0.50 unlisted options	1,375,000	335,000	\$0.50
	Placement on xx at \$0.57 per share	11,000,000	11,000,000	\$0.57
7.5	Convertible debt securities	-	-	
7.6	<i>Changes during quarter</i>	-	-	
7.7	Options		<i>Exercise price</i>	<i>Expiry date</i>
	<i>Unlisted Options</i>	7,375,000	-	\$0.40
		1,000,000	-	\$1.00
		2,900,000	-	\$0.80
7.8	<i>Issued during quarter</i>	-	-	
	\$0.80 unlisted options			
7.9	<i>Exercised during quarter</i>			
	\$0.30 unlisted options	27,125,000	17,053,736	\$0.30
	\$0.50 unlisted option	1,375,000	335,000	\$0.50
7.10	<i>Expired during quarter</i>			
	0.30 unlisted options	250,000	-	\$0.30
	\$0.50 unlisted option	1,015,000	-	\$0.50
7.11	Debentures	-	-	
7.12	Unsecured notes	-	-	

Compliance statement

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



Dougal Ferguson
Finance Director

30 January 2008

Notes

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