

Salinas Energy Limited

ABN 49 002 796 974

Appendix 4D – 31 December 2007 Half-Year Report

1. Reporting Period

The current reporting period is the period ended 31 December 2007 and the previous corresponding period is for the period ended 31 December 2006.

2. Results for Announcement to the Market.

	31 December 2007	31 December 2006	% Change
	\$	\$	
2.1 Revenue from ordinary activities.	3,795,958	496,486	665%
2.2 Profit (loss) from ordinary activities after tax attributable to members.	(5,333,555)	(3,896,274)	(37%)
2.3 Net profit (loss) for the period attributable to members.	(5,333,555)	(3,896,274)	(37%)
2.4 Amount per security and franked amount per security of interim dividend.	No interim dividends have been paid or provided for during the period		
2.5 Record date for determining entitlements to the dividends and payment date.	Not applicable		
2.6 Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	See Directors Report – Financial Report for the Half-Year Ended 31 December 2007.		

3. Net Tangible Assets Per Security

	31 December 2007	31 December 2006
	Cents	Cents
Net tangible assets* per ordinary share	14.7	9.7

* Net tangible assets = net assets excluding deferred tax assets and exploration expenditure

4. Gain or Loss of Control Over Entities

Not applicable.

5. Details of Dividend and Distribution Payments

No dividends or distributions have been paid or provided for during the period.

6. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

7. Associates and Joint Venture Entities

Not applicable.

8. Foreign Entities

Not applicable.

9. Audit Dispute or Qualification

None.



ABN 49 002 796 974

FINANCIAL REPORT
FOR THE HALF – YEAR ENDED
31 DECEMBER 2007

CORPORATE DIRECTORY

Directors

Ian P Middlemas - Chairman
John D Begg – Managing Director
Ronald L Miller
Dougal J Ferguson

Company Secretary

Dougal J Ferguson

Registered and Principal Office

420 Roberts Road
Subiaco WA 6008
Australia
International: +61 8 9380 2111
Facsimile: +61 8 9380 2112
www.salinasenergy.com

US Operations Offices

Ojai Office

201 Bryant Street, Suite 2B
Ojai, California, United States
CA 93023

Bakersfield Office

6821 Fishback Avenue
Bakersfield, California, United States
CA 93308

Auditor

Ernst & Young

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

Salinas Energy Limited is listed on
the Australian Securities Exchange
(Symbol: SAE).

Share Register

Computershare Investor Services
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Australia
Telephone: 1300 557 010
International: +61 8 9323 2000
Facsimile: +61 8 9323 2033
www.computershare.com.au

DIRECTORS' REPORT

The Board of Directors of Salinas Energy Limited present their report on the consolidated entity of Salinas Energy Limited ("the Company" or "Salinas") and the entities it controlled during the half year ended 31 December 2007 ("Consolidated Entity" or "Group").

Directors

The names of the Directors of Salinas Energy Limited in office during or since the end of the half-year until the date of this report are:

Ian P Middlemas - Chairman
John D Begg – Managing Director
Dougal J Ferguson
Ronald L Miller

Unless otherwise indicated, all directors held their position as a director throughout the entire half-year and up to the date of this report.

Results

The loss of the Consolidated Entity for the half-year was \$5,333,555 (2006 loss: \$3,896,274) after income tax.

Review of Operations

During the half-year Salinas continued to focus on its North San Ardo (NSA) oil field redevelopment project. 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 located six miles from NSA 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, 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. Potential partners are being offered 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. Salinas will remain the operator of the wells and expects to be fully funded by partners through the drilling program.

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.

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 mid 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. As at 31 December 2007, the field has produced a total of 52,592 barrels.

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 has commenced 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.

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 indicate 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. Engineering studies are underway to determine the most appropriate forward plans on this project. The options include producing the existing well or drilling a sidetrack to a location interpreted to have lower water influx. Consideration is also being given to drilling a water disposal well to allow disposal of the produced water in a timely and economic manner.

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 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 well developed but indications of natural fractures were observed which were thought could enhance reservoir deliverability. The well was subsequently put on production test and has been producing up to 30 bopd of light crude. When stabilised rates have been obtained, the well will be considered for artificial stimulation which may improve the flow rates and hence the commerciality of the well.

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 farm out campaign which has generated significant interest from a number of potential farm-in parties.

The drilling program will target light oil prospects 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 leases over the prospects and has begun preparation of the drill sites for the Merlot and Osso Bucco prospects in anticipation of securing additional partners for the drilling campaign. The Company plans to retain operatorship and 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.

Corporate and Financial

The Company recorded its maiden operating profit (before exploration impairment) for the six months ended 31 December 2007 since becoming focused on the oil and gas business. An operating profit of \$1.0 million was recorded after allowing for royalties, operating costs, finance costs and corporate overheads. This profit was based on a partial month of production (December) of an average of 580 bopd and is expected to substantially increase as the NSA production levels are stabilised and subsequently increased.

A net loss after tax of \$5.3 million was recorded after impairment of \$5.9 million of previously capitalised exploration expenditure and \$0.4 million of non-cash depreciation and amortisation expenses. The provisions for write-offs were with respect to the North Yowlumne project (\$5.0 million), Reese (\$0.5 million) and other non-prospective leases relinquished (\$0.4 million).

At the end of the half-year Salinas had cash on hand of over \$14.9 million. The Company has a debt facility of US\$5M of which US\$2.5M (A\$2.9 million) was drawn down during the half-year to assist in the funding of the NSA development wells. Subsequent to the end of the half-year, the debt was fully repaid leaving the Company debt free.

During the half year the Company raised a total of \$9.42 million through the issue of 18 million shares. Additionally, a total of 28.5 million shares were issued pursuant to the conversion of unlisted options, raising some further \$8.8 million.

Subsequent to the end of the half year, the Company announced an on market buy-back program for up to 12.1 million shares. As at the date of this report the Company has acquired 546,316 shares at an average price of \$0.36 per share which have subsequently been cancelled.

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 ENERGY LIMITED HALF-YEAR FINANCIAL REPORT

Salinas' ability to attract candidates of this calibre in a very competitive environment is an endorsement of the Company's strategy and growth potential.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of Salinas Energy Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on the following page five.

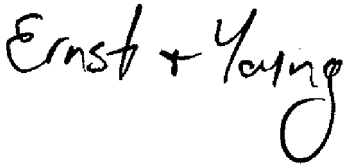
This report is made in accordance with a resolution of the Directors.



JOHN BEGG
Managing Director
Perth, 29 February 2008

Auditor's Independence Declaration to the Directors of Salinas Energy Limited

In relation to our audit of the financial report of Salinas Energy Limited for the financial year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



P McIver
Partner
Perth
29 February 2008

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Salinas Energy Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



JOHN BEGG
Managing Director

Perth, 29 February 2008

CONDENSED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

		Consolidated	
	Notes	31 December 2007 \$	31 December 2006 \$
Continuing operations			
Revenue	3(i)	3,795,958	496,486
Cost of sales		(1,673,302)	(27,806)
Gross Profit		2,122,656	468,680
Other Income	3(ii)	-	28,400
Other Expenses	3(iii)	(7,456,211)	(4,393,354)
Loss before income tax expense		(5,333,555)	(3,896,274)
Income tax expense		-	-
Loss for the period		(5,333,555)	(3,896,274)
Net loss for the period attributable to members of Salinas Energy Limited		(5,333,555)	(3,896,274)
Basic earnings per share for the period (cents per share)		(2.7)	(2.2)
Diluted earnings per share for the period (cents per share)		(2.7)	(2.2)

The above Condensed Income Statement should be read in conjunction with the accompanying notes.

CONDENSED BALANCE SHEET

AS AT 31 DECEMBER 2007

Consolidated			
	Note	31 December 2007 \$	30 June 2007 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	14,927,018	5,763,423
Trade and other receivables		2,389,649	396,574
Inventories		305,054	376,897
Total current assets		17,621,721	6,536,894
Non-current assets			
Available for sale investments		399,611	-
Other financial assets		-	1,302,373
Property, plant and equipment		318,904	301,018
Oil and gas properties		22,705,243	14,446,229
Exploration and evaluation assets	6	7,804,565	10,447,435
Total non-current assets		31,228,323	26,497,055
Total assets		48,850,044	33,033,949
LIABILITIES			
Current liabilities			
Trade and other payables		2,410,721	1,066,956
Interest-bearing loans and borrowings		2,864,757	-
Provisions		427,921	40,711
Total current liabilities		5,703,399	1,107,667
Total liabilities		5,703,399	1,107,667
Net assets		43,146,645	31,926,282
EQUITY			
Contributed equity	8	101,897,679	82,482,321
Reserves		(3,304,810)	(443,370)
Accumulated losses		(55,446,224)	(50,112,669)
Total equity		43,146,645	31,926,282

The above Condensed Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

<i>Consolidated</i>						
	<i>Issued Capital</i>	<i>Retained Earnings</i>	<i>Net Unrealised Reserve</i>	<i>Option Premium Reserve</i>	<i>Foreign Currency Translation Reserve</i>	<i>Total Equity</i>
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2007	82,482,321	(50,112,669)	-	2,540,443	(2,983,813)	31,926,282
Currency translation reserve	-	-	-	-	(1,109,271)	(1,109,271)
Loss on available for sale investments	-	-	(69,598)	-	-	(69,598)
Total income and expense for the period recognised directly in equity	-	-	(69,598)	-	(1,109,271)	(1,178,869)
Loss for the period	-	(5,333,555)	-	-	-	(5,333,555)
Total income / (expense) for the period	-	(5,333,555)	(69,598)	-	(1,109,271)	(6,512,424)
Options Granted	-	-	-	16,487	-	16,487
Shares issued	19,949,058	-	-	(1,699,058)	-	18,250,000
Share issue expenses	(533,700)	-	-	-	-	(533,700)
Balance at 31 December 2007	101,897,679	(55,446,224)	(69,598)	857,872	(4,093,084)	43,146,645
Balance at 1 July 2006	76,755,321	(45,007,869)	8,996	2,219,066	322,683	34,298,197
Currency translation reserve	-	-	-	-	(1,653,177)	(1,653,177)
Net losses on available for sale financial assets	-	-	(5,000)	-	-	-
Total income and expense for the period recognised directly in equity	-	-	(5,000)	-	(1,653,177)	(1,658,177)
Loss for the period	-	(3,896,274)	-	-	-	(3,896,274)
Total income / expense for the period	-	(3,896,274)	(5,000)	-	(1,653,177)	(5,554,451)
Options Granted	-	-	-	212,000	-	212,000
Shares issued	27,000	-	-	(4,500)	-	22,500
Balance at 31 December 2006	76,782,321	(48,904,143)	3,996	2,426,566	(1,330,494)	28,978,246

The above Condensed Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONDENSED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

Consolidated		
Note	31 December 2007	31 December 2006
	\$	\$
Cash flows from operating activities		
Receipts from customers	2,229,890	74,064
Payments to suppliers and employees	(1,492,958)	(496,559)
Interest received	131,596	264,428
Net cash flows from operating activities	868,528	(158,067)
Cash flows from investing activities		
Payments for acquisition of plant and equipment	(32,503)	(116,117)
Payments for development of oil field assets	(8,554,319)	(2,217,381)
Payments for exploration and evaluation assets	(4,762,776)	(4,863,084)
Proceeds on sale of investments	-	4,528,400
Net cash flows used in investing activities	(13,349,598)	(2,668,182)
Cash flows from financing activities		
Proceeds from issue of shares	18,250,000	22,500
Payment of share issue costs	(499,500)	-
Loans to other entities	-	(264,959)
Other cash flows from financing activities	3,839,850	(28,215)
Net cash flows from financing activities	21,590,350	(270,674)
Net increase/(decrease) in cash and cash equivalents	9,109,280	(3,096,923)
Net foreign exchange differences	54,315	(78,038)
Cash and cash equivalents at the beginning of the financial period	5,763,423	9,369,318
Cash and cash equivalents at the end of the financial period	14,927,018	6,194,357
5		

The above Condensed Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

1. Corporate information

The financial report of Salinas Energy Limited (the Company) for the half-year ended 31 December 2007 was authorized for issue in accordance with a resolution of the directors on 29 February 2008. Salinas Energy Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in note 4.

2. Summary of significant accounting policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be ready in conjunction with the annual Financial Report of Salinas Energy Limited as at 30 June 2007.

It is recommended that the half-year financial report be considered together with any public announcements made by Salinas Energy Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

) **Basis of preparation**

The half-year consolidated financial report is a general purpose condensed financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 Interim Financial Reporting and other mandatory professional reporting requirements.

The half-year financial report has also been prepared on a historical cost basis, except for available for sale investments and other financial assets, which have been measured at fair value.

The half-year financial report is presented in Australian dollars.

(b) Significant accounting policies

Apart from the change in accounting policy and adoption of new policies that did not occur previously, noted below, the half-year condensed consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

(c) Changes in Accounting Policy

Since 1 July 2007 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 101 (revised October 2006) Presentation of Financial Statements
- AASB 7 Financial Instruments: Disclosures

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038)
- AASB 2007-1 Amendments to Australian Accounting Standards arising from Interpretation 11 (AASB 2)
- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments
- AASB 2007-7 Amendments to Australian Accounting Standards (AASB 1, AASB 2, AASB 4, AASB 5, AASB 107, & AASB 128)
- Interpretation 10 Interim Financial Reporting and Impairment
- Interpretation 11 AASB 2 – Group and Treasury Share Transactions

(d) Oil and Gas Properties

Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment, and any associated land and buildings.

Producing assets

The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

Depletion charges are calculated using a unit of production method which will amortise the cost of carried forward exploration, evaluation and development expenditure over the life of the estimated proved plus probable reserves, in a cash generating unit, together with the development expenditure necessary to develop the hydrocarbon reserves in the respective cash-generating units.

Provisions for future restoration are made where there is a present obligation as a result of development or production activity, and is capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in full below.

(e) Provisions

Restoration Provisions

The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of the long lived assets to which the obligation relates is increased by the asset retirement obligation costs and amortised over the producing life of the asset. Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of the asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Company has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date.

Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded within finance costs. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(f) Interest bearing liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(g) Basis of consolidation

The half-year condensed consolidated financial statements comprise the financial statements of Salinas Energy Limited and its subsidiaries as at 31 December 2007 ('the Group').

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Consolidated	
	31 December 2007	31 December 2006
	\$	\$
Note 3. Revenue, Income and Expenses		
i. Revenue		
Oil Sales	3,641,739	10,370
Finance Income	154,219	343,981
Management Fees	-	142,135
Total revenue	3,795,958	469,486
ii. Other income	-	28,400
iii. Other expenses		
Impairment of exploration and evaluation assets	5,870,321	3,210,499
Depreciation of property, plant and equipment	45,885	57,844
Amortisation of oil properties	374,684	-
Employee benefits	387,255	557,587
Business development	33,898	131,368
Foreign exchange losses	1,463	199,417
Sales and commercialisation (Renewable Energy Business)	38,225	77,843

Note 4. Segment Information

The Consolidated Entity operated in two business segments during the current half year and in two geographical segments, listed below:-

	Segment Revenue		Segment Result	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	\$	\$	\$	\$
Geographical Segments				
Australia	151,530	337,558	(731,222)	(624,254)
United States	3,644,428	158,928	(4,602,333)	(3,272,020)
Consolidated	3,795,958	496,486	(5,333,555)	(3,896,274)
Business Segments				
Oil and Gas	3,641,739	158,928	(4,602,333)	(3,272,020)
Renewable Energy	-	-	(38,225)	(77,843)
Unallocated	154,219	337,558	(692,997)	(546,411)
Consolidated	3,795,958	496,486	(5,333,555)	(3,896,274)

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

Consolidated

31 December 2007	31 December 2006
\$	\$

Note 5. Cash and cash equivalents

For the purpose of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

Cash at bank and in hand	849,827	457,792
Short-term deposits	14,077,191	5,736,565
	14,927,018	6,194,357

Consolidated

31 December 2007	30 June 2007
\$	\$

Note 6. Exploration and Evaluation assets

Opening Balance	10,447,435	17,712,038
Foreign exchange on opening balance	(388,139)	(2,237,115)
Additions	3,892,393	6,575,736
Impairment of exploration and evaluation assets	(5,870,321)	(3,485,408)
Transfers to oil and gas properties	(276,803)	(8,117,816)
	7,804,565	10,447,435

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest. The impairment of exploration assets occurred as a result of the Directors determining that the previously incurred expenditures at South Buena Vista (North Yowlumne) and Reese (Louisiana) are not recoverable. The withdrawal by the Company from the Lamont area of interest also resulted in a write-off of previously capitalised costs for that area of interest.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

Note 7. Share-based Payment Plans

During the half year zero share based options were granted to Directors, employees and consultants.

Note 8. Contributed Equity**Ordinary Shares**

Date	Details	Number	\$
1 July 2007	Opening Balance	194,492,690	82,482,321
10 Oct 2007	Placement	7,000,000	3,150,000
10 Oct 2007	Share Option Conversion	10,000	5,000
19 Nov 2007	Share Option Conversion	225,000	112,500
22 Nov 2007	Placement	4,000,000	2,280,000
22 Nov 2007	Share Issue Expenses	-	(157,500)
23 Nov 2007	Placement	7,000,000	3,990,000
23 Nov 2007	Share Issue Expenses	-	(376,200)
28 Nov 2007	Share Option Conversion	60,000	30,000
11 Dec 2007	Share Option Conversion	3,000,000	900,000
11 Dec 2007	Share Option Conversion	50,000	25,000
17 Dec 2007	Share Option Conversion	875,000	262,500
19 Dec 2007	Share Option Conversion	10,428,736	3,128,621
27 Dec 2007	Share Option Conversion	2,750,000	825,000
31 Dec 2007	Share Option Conversion	9,571,264	2,871,379
31 Dec 2007	Share Option Conversion	500,000	150,000
31 Dec 2007	Share Option Conversion	1,040,000	520,000
31 Dec 2007	Option Premium Reserve	-	1,699,058
31 Dec 2007	Closing Balance	241,002,690	101,897,679

Note 9. Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material change of any contingent assets or liabilities.

Note 10. Dividends Paid and Proposed

No dividend has been paid or proposed during the half year.

Note 11. Events after Balance Date

Subsequent to the end of the year, the Company repaid in full its outstanding debt facility of US\$2.5 million leaving the Company debt free. The Directors also announced the commencement of a share buy back program on 23 January 2008 for a buy back of up to 12,050,134 shares.

To the members of Salinas Energy Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Salinas Energy Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 31 December 2007 end or from time to time during the half-year.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Salinas Energy Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

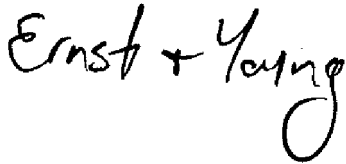
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Salinas Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



P McIver
Partner
Perth
29 February 2008