



Salinas
Energy Limited

APPENDIX 4E: PRELIMINARY FINAL REPORT

For the year ended 30 June 2009
A.C.N. 002 796 974

RESULTS:

- Sales revenues increased 30% to \$19.0m (2008: \$14.6m).
- Cash of \$3.7 million with no debt.
- EBITDAX up 41% to \$6.9m (2008: \$4.9m). EBITDAX is calculated as earnings before interest, tax, depreciation, amortisation and impairment provisions.
- Loss of \$10.9m (2008: \$8.4m) after \$14.7m (2008: \$12.4m) of non-cash impairment provisions recorded against exploration and development assets.

OPERATING REVIEW

Since the end of the 2008 calendar year, while coming to terms with the drastically changed oil price and capital markets environment, the Company materially reduced its cost base and halted all exploration and drilling activity, including development drilling at North San Ardo ('NSA'). This lack of investment was a direct result of the uncertainty surrounding worldwide financial markets and the precipitous fall in commodity prices, and more specifically, the oil price. The need to preserve capital at that time was paramount and all material capital investment was suspended resulting in a fall in production levels from the peaks experienced in mid 2008.

With the return of a more stable financial environment and a recovery in the oil price, the Company is well positioned to further invest in drilling activity at both the producing NSA oil field and the Paris Valley oil field redevelopment project, although commencement of this work program has been somewhat delayed as a result of the recently announced merger proposal with Neon Energy Pty Ltd (see below for further details).

During the period of relative inactivity, the Company undertook a review of its reserves base and has made preparation for a resumption of drilling activities in the second half of the 2009 calendar year, by processing the required permits for its projects. Additionally, the Company is preparing trial steam enhancement of production at NSA as a cost effective alternative to drilling, to increase production on a well by well basis. All production from NSA to this point has been primary production, although most heavy oil production projects in California are steam enhanced.

Despite extensive negotiations with respect to the surrounding acreage of Salinas' principal NSA lease, the Company has been unable to conclude a satisfactory agreement with Chevron Corporation ('Chevron'), the adjacent lease holder. Due to an historic agreement dating back to 1947, there has been and continues to be a level of uncertainty with respect to the rights of Chevron to a parcel of

land within the original lease that covered the greater San Ardo area. Salinas leased this land in 2007, in good faith, from the mineral rights owners. Consequently the reserves Salinas currently has unequivocal title to has reduced by around 1.6mmbls which allowing for production to date leaves estimated remaining recoverable reserves as at 30 June 2009 of around 3.6 mmbls.

Exploration activity during the year was limited to leasing activities and some relatively minor acreage swaps. There is expected to be a renewed focus on exploration activity as the market conditions improve and Salinas has an excellent acreage position from which to commence further activity.

CORPORATE ACTIVITY

Salinas announced on 26 August 2009 that it proposes to acquire Neon Energy Pty Ltd (“Neon”). The transaction will result in Salinas acquiring Neon for \$1.5million in cash plus the issue of 44,763,600 new Salinas shares valuing the transaction at approximately \$6.5 million. In addition to the issue of shares, existing Neon share option holders will receive up to 9.4 million options over Salinas’s shares exercisable at \$0.20 per share on or before 31 August 2012.

Neon owns a 100% working interest in Block 120 which is a Vietnam offshore Production Sharing Contract (“PSC”) together with an extensive proprietary database which has significant value. Block 120 covers an area of 8,469 square kilometres in water depths of 50m to 1,100m. Over the most prospective parts of the basin sediment thickness is up to 6,500m and water depths range from 50m to 500m. The block overlies a north-south trend of Tertiary-aged sedimentary basins, but primarily overlies the Quang Ngai Graben which is north of the Phu Khanh Basin.

Offshore central Vietnam, where Block 120 is located, has only been very lightly explored however there has been an upsurge in interest as evidenced by nearby well known multinational companies such as Gazprom, Santos, Premier, Chevron, Essar and Origin Energy. It is anticipated that Salinas will continue farmout efforts for Block 120 which have already been commenced by Neon. With the introduction of partners, the Company will be able to balance the financial exposure to the work program with the risk/reward of the highly prospective acreage.

It is proposed that Dr Alan Stein and Mr. John Lander who currently serve on the Neon Board will be appointed to the Board of Salinas. Dr Stein was a founder of the successful African exploration companies Fusion Oil and Gas plc and Ophir Energy plc which made discoveries offshore Mauritania and Equatorial Guinea respectively. Ophir Energy plc is a substantial, private unlisted company operating in Africa. Mr. John Lander has over 37 years international experience including directorships in a number of successful oil and gas companies listed in the United Kingdom.

It is also proposed that Mr. Ken Charsinsky will be appointed as Managing Director of Salinas upon completion and upon him ceasing employment with Noble Energy Inc, Neon’s largest shareholder. Mr. Charsinsky has over 30 years experience in the international and domestic US oil industry with major operating oil companies, most recently as Exploration Director of International New Ventures for Noble Energy Inc. He has also served as Managing Director of operating subsidiary companies for CMS Oil and Gas in Congo and Tunisia.

Current Managing Director, Mr. John Begg will step down from the Board upon completion of the transaction. The Board expresses its appreciation to Mr. Begg for building Salinas into an oil production company over the past three years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Salinas will continue oil and gas production, development and exploration activities in the United States for the foreseeable future and pursue further opportunities in Southeast Asia when the proposed acquisition of Neon is completed.

Oil and gas exploration and development is inherently risky and there can be no certainty that the Group will be able to successfully achieve the objective of becoming a mid-cap oil and gas producer. In the opinion of the Directors, any further disclosure of information regarding likely developments in the operations of the Group and the expected results of these operations in subsequent financial years may be misleading due to the inherent uncertainties in small oil and gas businesses.

DIVIDENDS

No dividend is proposed for Salinas Energy Limited for the financial year ended 30 June 2009.



John Begg
Managing Director
31 August 2009

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REPORTING PERIOD

The reporting period is the year ended 30 June 2009 with the corresponding reporting period being for the year ended 30 June 2008.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	\$'000
Revenue	Up 30% to 19,034
Loss from ordinary activities after tax attributable to members	Up 29% to (10,859)
Net loss for the period	Up 29% to (10,859)

DIVIDENDS

	Amount per security	Franked amount per security
Final dividend – no final dividend is proposed	n/a	n/a
Interim dividend	n/a	n/a
Record date for determining entitlements to the dividend	n/a	

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED INCOME STATEMENT

	Note	Consolidated	
		2009	2008
		\$	\$
Continuing operations			
Revenue	3(a)	19,034,270	14,551,218
Operating Expenses		(3,287,008)	(2,217,272)
Royalty Payments		(3,808,091)	(3,122,125)
Depreciation & Amortisation Expense	3(b)	(3,110,946)	(1,157,408)
Costs related to inventory sale		(150,000)	-
Cost of Sales		<u>(10,356,045)</u>	<u>(6,496,805)</u>
Gross Profit		8,678,225	8,054,413
Other income	3(c)	943	-
Impairment of exploration and evaluation assets	3(f)	(5,208,720)	(12,436,929)
Impairment of oil and gas properties in development	3(f)	(9,523,079)	-
Corporate and administration expenses		(4,135,062)	(3,260,833)
Business development expenses		(571,249)	(188,269)
Other expense	3(g)	(98,378)	(344,675)
Finance expenses		(1,816)	(217,324)
		<u>(19,538,304)</u>	<u>(16,448,030)</u>
Profit/(loss) before income tax		(10,859,136)	(8,393,617)
Income tax expense		-	-
Profit/(loss) after tax for the period		<u>(10,859,136)</u>	<u>(8,393,617)</u>
Profit/(loss) attributable to members of the parent		<u>(10,859,136)</u>	<u>(8,393,617)</u>
		Cents	Cents
Basic loss per share		(4.60)	(3.80)
Diluted loss per share		(4.60)	(3.80)

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED BALANCE SHEET

	Consolidated	
	2009	2008
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	3,702,595	6,073,425
Trade and other receivables	756,810	3,951,929
Inventories	233,984	382,859
TOTAL CURRENT ASSETS	4,693,389	10,408,213
NON-CURRENT ASSETS		
Available for sale investments	62,527	155,440
Property, plant and equipment	316,948	294,925
Oil and gas properties in development	24,645,044	25,773,484
Exploration and evaluation assets	4,600,283	5,467,151
TOTAL NON-CURRENT ASSETS	29,624,802	31,691,000
TOTAL ASSETS	34,318,191	42,099,213
CURRENT LIABILITIES		
Trade and other payables	858,824	4,521,461
Provisions	368,058	142,979
TOTAL CURRENT LIABILITIES	1,226,882	4,664,440
NON-CURRENT LIABILITIES		
Provisions	601,185	455,987
TOTAL NON-CURRENT LIABILITIES	601,185	455,987
TOTAL LIABILITIES	1,828,067	5,120,427
NET ASSETS	32,490,124	36,978,786
EQUITY		
Contributed equity	100,526,627	101,301,355
Reserves	1,328,919	(5,816,283)
Accumulated losses	(69,365,422)	(58,506,286)
TOTAL EQUITY	32,490,124	36,978,786

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital \$	Retained Earnings \$	Option & Rights Premium Reserve \$	Foreign Currency Translation Reserve \$	Total Equity \$
At 1 July 2007	82,482,321	(50,112,669)	2,540,443	(2,983,813)	31,926,282
Foreign currency translation	-	-	-	(4,049,341)	(4,049,341)
Total income and expense for the period recognised directly in equity	-	-	-	(4,049,341)	(4,049,341)
Loss for the period	-	(8,393,617)	-	-	(8,393,617)
Total income and expense for the period	-	(8,393,617)	-	(4,049,341)	(12,442,958)
Shares issued	19,949,058	-	(1,699,058)	-	18,250,000
Transaction costs on share issue	(533,700)	-	-	-	(533,700)
Share buy-back	(596,324)	-	-	-	(596,324)
Rights granted	-	-	173,051	-	173,051
Options granted	-	-	202,435	-	202,435
At 30 June 2008	101,301,355	(58,506,286)	1,216,871	(7,033,154)	36,978,786
At 1 July 2008	101,301,355	(58,506,286)	1,216,871	(7,033,154)	36,978,786
Foreign currency translation	-	-	-	6,619,318	6,619,318
Total income and expense for the period recognised directly in equity	-	-	-	6,619,318	6,619,318
Loss for the period	-	(10,859,136)	-	-	(10,859,136)
Total income and expense for the period	-	(10,859,136)	-	-	(10,859,136)
Share buy-back	(744,728)	-	-	-	(744,728)
Rights granted	-	-	60,635	-	60,635
Options granted	-	-	465,249	-	465,249
At 30 June 2009	100,526,627	(69,365,422)	1,742,755	(413,836)	32,490,124

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED CASH FLOW STATEMENT

	Consolidated	
	2009	2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	22,016,705	10,582,069
Payments to suppliers and employees	(12,252,371)	(6,508,022)
Interest received	213,627	415,319
Finance costs paid	(1,816)	(217,185)
Net cash flows from operating activities	9,976,145	4,272,181
CASH FLOWS FROM INVESTING ACTIVITIES		
Development expenditure	(8,324,063)	(14,543,475)
Exploration and evaluation expenditure	(3,147,628)	(7,045,249)
Purchase of property, plant and equipment	(105,153)	(134,643)
Proceeds from sale of property, plant and equipment	-	4,498
Payments for other financial assets	-	(469,208)
Receipts for other financial assets	-	1,237,999
Net cash used in investing activities	(11,576,844)	(20,950,078)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	18,250,000
Transaction costs of issue of shares	-	(533,700)
Share buy-back	(815,209)	(596,324)
Net cash flows from/(used in) financing activities	(815,209)	17,119,976
Net increase/(decrease) in cash and cash equivalents	(2,415,908)	442,079
Net foreign exchange differences	45,078	(132,077)
Cash and cash equivalents at beginning of period	6,073,425	5,763,423
Cash and cash equivalents at end of period	3,702,595	6,073,425

The above results should be read in conjunction with the notes and commentary within this report.

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FOR THE YEAR ENDED 30 JUNE 2009**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION OF PRELIMINARY REPORT

(a) Corporate information

The preliminary financial report of Salinas Energy Limited and its subsidiaries ("Salinas" or the "Group") for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of directors.

Salinas is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

(b) Basis of Preparation

The report is based on accounts that are in the process of being audited.

This report does not include all notes normally included in an annual financial report. Accordingly this report is to be read in conjunction with the financial report for the year ended 30 June 2008 and any public announcements made by Salinas during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial report is presented in Australian dollars.

(c) Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards board.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2008. The adopted Standards and Interpretations did not result in any changes to the accounting policies adopted by the Group.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2009. Each new or amended Standard will be applicable for the Group from the first period beginning 1 July following the application date of the Standard. The expected impact of the new or amended Standards and Interpretations on the Group has not yet been determined.

(d) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Salinas Energy Limited ("Company" or "Salinas" or "Parent Entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Salinas Energy Limited and its subsidiaries together are referred to as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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NOTES TO THE FINANCIAL STATEMENTS continued

(d) Principles of Consolidation continued

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Entity, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

NOTE 2:

ANNUAL GENERAL MEETING

The details of the Annual General Meeting are to be advised.

NOTE 3:

REVENUES, OTHER INCOME AND EXPENSES

	Consolidated 2009	2008
	\$	\$
(a) Revenue		
Oil Sales	17,830,140	14,137,424
Finance revenue	213,626	413,794
Other Revenue	990,504	-
	<u>19,034,270</u>	<u>14,551,218</u>
(b) Depreciation and amortisation included in the income statement		
Amortisation – oil and gas properties	2,539,335	974,792
Depreciation – oil and gas properties	571,611	182,616
	<u>3,110,946</u>	<u>1,157,408</u>
Depreciation – other plant and equipment	103,068	88,299
	<u>3,214,014</u>	<u>1,245,707</u>
(c) Other income		
Other	943	-

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NOTES TO THE FINANCIAL STATEMENTS continued

	Note	Consolidated 2009 \$	2008 \$
(d) Employee benefits expense			
Wages and salaries		3,065,010	2,330,510
Medical insurance		246,703	143,704
Superannuation expenses		113,599	183,866
Payroll taxes		207,321	105,314
Share based payments expense		525,884	375,486
Other		158,331	154,688
		4,336,271	3,188,254

The above-mentioned expenses are shown prior to capitalisation of expenses to exploration and development assets.

(e) Operating Leases

Office equipment		35,533	15,834
Office premises		255,307	255,511
		288,840	271,345

(f) Impairment of exploration and evaluation assets and oil and gas development properties

North San Ardo		9,523,079	-
North Yowlumne		47,772	7,880,983
Southern San Joaquin Basin		2,250,077	-
Salinas Valley		1,751,243	-
Others		1,159,628	4,555,946
		14,731,799	12,436,929

(g) Other expenses

Net loss on sale of assets		5,465	30,906
Impairment of available for sale financial assets	(i)	92,913	313,769
		98,378	344,675

- (i) The impairment of the available for sale financial assets is due to a significant decline in the listed marked prices of the financial assets at 30 June 2009.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: SEGMENT INFORMATION

(a) Business Segments

During the financial year the Group operated in one business segment, being the exploration and production of oil and gas. A small amount of capital is employed in the development of renewable energy solutions which is no longer being actively pursued as a separate business segment at present due to the re-focus of the Group to an oil and gas producer and explorer.

During the year \$150,000 of inventories in the renewable energy business were sold resulting in a profit of \$832,104.

(b) Geographical Segments

During the financial year the Group operated in one geographical segment being the United States. The head office is located in Australia but does not qualify as a business segment as it does not employ any capital and performs primarily corporate and administration support to the United States operations.

Segment Information:

	Segment Revenue		Segment Result	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Business Segments				
Oil and Gas	17,830,140	14,137,424	(9,207,716)	(6,141,853)
Renewable Energy	982,104	-	832,104	-
Unallocated	222,027	413,794	(2,483,523)	(2,251,764)
Consolidated	<u>19,034,270</u>	<u>14,551,218</u>	<u>(10,859,136)</u>	<u>(8,393,617)</u>

All the assets now relate to the oil and gas segment or are unallocated to a segment. The impairment charge for the year relate to the oil and gas segment.

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NOTES TO THE FINANCIAL STATEMENTS Continued

NOTE 5: NET TANGIBLE ASSETS

	2009	2008
	\$	\$
Net tangible asset backing per ordinary security	0.14	0.17

The above results should be read in conjunction with the notes and commentary within this report.

NOTE 6: EARNINGS PER SHARE

	Consolidated 2009	2008
	\$	\$
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit/(loss)	(10,859,136)	(8,393,617)
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	<u>(10,859,135)</u>	<u>(8,393,617)</u>

	Consolidated	
	Number of Shares 2009	Number of Shares 2008
Weighted average number of ordinary shares used in calculating basic earnings per share	237,368,719	220,701,243
Effect of dilutive securities:		
Share options	-	-
Convertible preference shares	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>237,368,719</u>	<u>220,701,243</u>

Potential ordinary shares are not considered dilutive and accordingly diluted earnings per share is the same as basic earnings per share.

Signed in accordance with a resolution of directors.



John Begg
Managing Director
31 August 2009