



ANNOUNCEMENT TO THE AUSTRALIAN STOCK EXCHANGE: 28 APRIL 2008

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## QUARTERLY REPORT

### HIGHLIGHTS

#### Salinas Basin:

##### North San Ardo:

- Revenues up 100% on last quarter to A\$2.9 million and set to further increase next quarter.
- Commenced four well horizontal drilling program to increase production.
- Production from existing wells will also be increased with larger pump equipment currently being installed.
- Facilities now fully operational and able to handle the greater volumes that will come from the current drilling program.

##### Paris Valley:

- Additional leases acquired in surrounding areas to capture potential upside.
- Title clearance work being progressed to allow drilling later this year.

##### McCool Ranch:

- Long term production testing to determine oil flow rates and reserve potential.
- Temporary facilities including water handling and disposal being installed.
- First sales of McCool oil likely to occur within the month.

#### San Joaquin Basin:

- Salinas has matured a number of 10 to 25 million barrel 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:

- Financial year to date sales revenues (accrued basis) in excess of A\$6.2 million.
- Debt free with cash on hand at 31 March 2008 at A\$8.6 million after repayment of all outstanding debt (A\$2.8 million).
- Management team in USA strengthened with the appointment of Mr Greg Wagner as Resident Manager (USA) and Mr John McCarthy (General Manager Engineering and Production).
- Share buy-back announced on 23 January 2008 with 873,030 shares acquired to date.

## OVERVIEW

The Company is continuing to focus on its San Ardo area oil field redevelopment projects with the completion of the NSA production facility and the resumption of the horizontal production well drilling campaign. Planning is underway for the next phase of development drilling later in the year (3<sup>rd</sup> or 4<sup>th</sup> quarter) with the Company continuing to target total production of 2,000 bopd across all of its projects before the end of calendar year 2008.

Work has also begun on bringing the McCool field into commercial production, with a longer term production test on the Capps 1-22H well about to commence. This field is expected to contain up to one million barrels of recoverable oil. It is expected that following a successful long term production test, Salinas will be able to book reserves from this field.

Salinas is due to commence the appraisal of Paris Valley upon completion of the title clearance work which is currently ongoing. Paris Valley is 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 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 to 25 million barrel range.

Salinas recently appointed two additional USA based management personnel, Mr Greg Wagner (USA Resident Manager) and Mr John McCarthy (General Manager Engineering and Production). These appointments, together with the consolidation of the California offices to one location in Bakersfield are expected to make significant improvements in the Company's operational capability and efficiency.

Salinas continues to aggressively pursue a number of other oil and gas projects onshore California and is one of the most active players in the area.

## PROJECTS

### ***Salinas Basin***

#### North San Ardo Oil Field – (Salinas 100%)

The first stage of the development at NSA is complete and the permanent facilities operational. To achieve this, a 3 week shut in of the field was necessary during February and early March while a number of construction activities were carried out simultaneously. The Company is currently focused on increasing production through the drilling of additional horizontal production wells and the optimisation of pump units on existing production wells.

The first well in the current four well horizontal drilling program has been completed and will be tied into the production facility within the next two weeks. Two additional production/drilling pads (north and south) have been constructed on which additional horizontal wells will be drilled to produce reserves not accessible from the central pad.

Salinas' production rates for the first quarter of 2008 are slightly behind budget but the Company remains on track to achieve its 2008 targets of 287,000 barrels and US\$20M in revenues. A third production drilling campaign is planned for the third quarter which will further increase primary production rates from the field. A number of wells in the field will eventually be used as steam injection wells with others remaining long term producers.

Up to March 2007, the field has produced and sold a total of 80,777 barrels. Sales revenues for the first nine months of the financial year were A\$6.2 million.

### 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.

The holder of the majority 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 Field – (Salinas 100%)

McCool Ranch remains a focus for the Company in the short term and is now on long term production test to determine the long term productivity of the reservoir.

Production testing has to date produced oil but with large quantities of water. Initially, it was considered that it may be best to eliminate the water through a work-over or sidetrack of the well. After further analysis, it has been determined that the most economic and lowest risk approach to a long term test of the productive potential is to place the well on production with temporary facilities and dispose of the water through re-injection.

Salinas is earning a 100% working interest in the Capps lease covering this part of the McCool field and a 75% net profit interest.

## ***San Joaquin Basin***

### Southern San Joaquin Acreage - (Salinas 100%)

All leases which Salinas operates in the southern San Joaquin Basin are currently held 100%. The Company has continued marketing a multi-lease farm out campaign over the prospective areas and several parties have indicated a strong interest in the projects. Salinas hopes to conclude the farm out during the current quarter and commence drilling activities in the third quarter of 2008.

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.

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

The North Yowlumne-2 well continues to be tested intermittently by the operator with only minor oil recoveries now being recorded. Salinas continues to monitor the operations of the well but it is likely that the well will be suspended or plugged and abandoned unless it can be demonstrated that a stimulation of the well has a good chance of commercial success.

**CORPORATE**

At the end of the quarter Salinas had cash reserves of over A\$8.6 million and no debt. The Company has access to a debt facility of US\$5M and is currently considering its options with respect to the extension or replacement of this facility. During the quarter, the Company repaid the US\$2.5 million it had previously drawn down on the debt facility.

The Company also acquired 873,030 of its own shares as part of the previously announced on market buy-back program and has undertaken a selective buy-back of its securities since the announcement of the buy-back on 23 January 2008. During the quarter the Company acquired its own shares at prices ranging from \$0.30 to \$0.38 totaling \$307,451 of expenditure. The buy-back was successful in allowing the Company to acquire its own shares during recent low price environments.

Salinas recently appointed two additional USA based management personnel, Mr Greg Wagner (USA Resident Manager) and Mr John McCarthy (General Manager Engineering and Production). These appointments, together with the consolidation of the California offices to one location in Bakersfield are expected to make significant improvements in the Company's operational capability and efficiency.

**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 March 2008**

### Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	2,857	5,231
1.2	Payments for		
	(a) exploration and evaluation	(94)	(4,857)
	(b) development	(3,079)	(11,634)
	(c) production	(1,523)	(2,096)
	(d) administration	(816)	(1,879)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	160	292
1.5	Interest and other costs of finance paid	(54)	(217)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	<b>Net Operating Cash Flows</b>	<b>(2,549)</b>	<b>(15,160)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	(469)	(469)
	(c) other fixed assets	(17)	(50)
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)	(4)	1,229
	<b>Net investing cash flows</b>	<b>(490)</b>	<b>710</b>
1.13	Total operating and investing cash flows	(3,039)	(14,450)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	175	17,751
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	2,770
1.17	Repayment of borrowings	(2,770)	(2,770)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	(341)	(341)
	<b>Net financing cash flows</b>	<b>(2,936)</b>	<b>17,410</b>
	<b>Net increase (decrease) in cash held</b>	<b>(5,975)</b>	<b>2,960</b>
1.20	Cash at beginning of quarter/year to date	14,752	5,763
1.21	Exchange rate adjustments to item 1.20	(168)	(114)
1.22	<b>Cash at end of quarter</b>	<b>8,609</b>	<b>8,609</b>

## 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	187
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)	-
3.2 Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	500
4.2 Development	3,200
<b>Total</b>	<b>3,700</b>

## 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	563	674
5.2 Deposits at call	8,046	14,078
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>8,609</b>	<b>14,752</b>

## 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	-	-		
7.2	-	-		
7.3	240,129,660	240,129,660		
7.4				
		10,071,264	\$0.30	\$0.30
		1,040,000	\$0.50	\$0.50
	(873,030)	(873,030)		
7.5	-	-		
7.6	-	-		
7.7			<i>Exercise price</i>	<i>Expiry date</i>
	7,375,000	-	\$0.40	31/12/08
	1,000,000	-	\$1.00	31/03/09
	3,325,000	-	\$0.80	31/12/08
	6,035,000	-	\$0.80	31/12/10
7.8	6,035,000	-	\$0.80	31/12/10
7.9				
7.10				
7.11	-	-		
7.12	-	-		

## *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

28 April 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.