

QUARTERLY REPORT

KEY RESULTS

- Production of 100 barrels of oil per day from the North San Ardo oil field.
- First oil sale achieved in late December.
- Four well development drilling program to commence shortly at North San Ardo.
- Multi-project Farmout Agreement executed with Statesman Resources.
- Windgap 42-36 well safely drilled and tested but with non-commercial flow rates.
- North Yowlumne testing completed.

OVERVIEW

Salinas' first year of operation has seen the Company successfully prove its credentials as an operator with the initiation of production from the North San Ardo oil project, onshore Southern California.

The most important result achieved during the current quarter was the successful production testing of the Lombardi 1-27, drilled as an appraisal well on the Company's 100% held North San Ardo oil project. This relatively shallow vertical well intersected a thick oil column in excellent quality reservoir sands and has been converted to an oil producer and produced at initial rates in excess of 100 bopd. Oil is being sold and trucked to a local refinery on a regular basis.

Another important achievement during the quarter was the multi-project Farmout Agreement signed with Statesman Resources which involves a farmout of 25% of the San Joaquin lease areas. This farmout agreement is the first step in the Company's strategy for delivering a multi-well exploration drilling program in the San Joaquin Basin in the latter half of 2007 and balancing the exploration portfolio risk profile.

Although unsuccessful, the testing of the Windgap 42-36 and North Yowlumne-1 wells was completed during the quarter. Salinas is in the process of withdrawing from the Windgap project, but is actively pursuing a follow up to the North Yowlumne oil discovery.

Financially the Company is well placed to complete its upcoming drilling and development program with cash, performance bonds and other receivables totalling almost \$10 million.

PROJECTS

Salinas Basin

North San Ardo Oil Project (Salinas 100%)

Phase 1 of the development of the North San Ardo Oil Project gained momentum during the quarter with the completion of the Lombardi 1-27 appraisal well as an oil production well. The Lombardi 1-27 appraisal well, during trial production testing, produced oil consistently at over 100 bopd stimulated only by hot water injection. The well was drilled in August on the Southern lobe of the North San Ardo oil field, encountering an 80 foot oil column in excellent quality sandstone reservoir.

The Company sold its first shipment of crude in early January following the execution of a Crude Marketing Agreement with a local refinery.

During the quarter, Salinas acquired a 3D seismic survey over the North San Ardo field to assist in refining the mapping of the field and select locations for the next drilling program, expected to commence in February. The Company is contracting a drilling rig for up to four wells, being two vertical appraisal wells and two horizontal production wells.

The first of the two appraisal wells (Lombardi 3-27) is expected to be drilled on the northern lobe of the field. Confidence of the extension of the field to the North has significantly improved following the processing and interpretation of the recently acquired seismic. If the reservoir thickness at this location is as mapped, the well may be subsequently completed as a production well with the installation of temporary facilities. Lombardi 3-27 is expected to take around 15 days to drill and complete.

The second appraisal well (Lombardi 2-27) will be drilled in a location that is interpreted to be a saddle in the field. The objective of this well is to confirm the structural control of the field and to assist in planning for the full field development (Phase 2) which could involve up to an additional eight horizontal production wells. This well may also subsequently be completed as a production well, but will be dependent on the reservoir thickness at this location.

Following confirmation of the structure mapping from the two appraisal wells, the Company plans two horizontal wells in the field to act as the main production wells in Phase 1 of the field development. Phase 1 of the drilling program is expected to take approximately two months to complete and the Company is targeting total field production rates in excess of 500 bopd by the end of the financial year.

The Company has committed to construction of first stage production facilities including a steam injection unit (in fabrication) which will be used to heat the heavy oil in the reservoir and stimulate oil flow rates. This is a common technique in use throughout the industry and specifically California.

San Joaquin Basin

A regional study of the San Joaquin Basin has continued during the quarter with an extensive mapping program being undertaken over the prospective areas of the Basin. The study is expected to be completed during the next quarter. Upon completion of final mapping of the prospects, the Company will actively seek partners to fund a drilling program that is expected to commence by the second half of 2007.

Farmout Agreement with Statesman Resources

In accordance with the Company's strategy of managing exploration risk, Salinas has entered into a Farmout Agreement with Canadian (TSX listed) Statesman Resources whereby Statesman will contribute to an exploration and drilling program of up to four exploration wells in 2007 on leases held 100% by Salinas in the San Joaquin Basin.

Under the terms of the Farmout Agreement, Statesman will earn a 25% interest in the leases by funding 37.5% of the cost of the farmin wells in addition to paying 25% of the ongoing geoscience, engineering and administration work that Salinas will carry out to finalise the drilling targets. Statesman will also refund 25% of the past costs incurred for these leases, which totals approximately US\$400,000. Salinas will retain the operatorship of the leases and will operate the exploration program.

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

All zones of interest in North Yowlumne 1-26 have been tested and the Company soon expects to be assigned its 25% earned interest in the project.

Salinas considers the discovery of oil in North Yowlumne 1-26 a highly significant result and is planning further evaluation of the project, despite being unable to complete the well not being able to be completed as a commercial producer.

Windgap (Salinas 42.50% and withdrawing)

The Company is in the process of withdrawing from the Windgap Project following completion of the production testing of the well. Windgap 42-36 failed to flow hydrocarbons at commercial quantities and Salinas does not consider a second well on the project is warranted, which would otherwise be required by the governing Acquisition Agreement.

Salinas previously lodged a performance bond of US\$1 million with respect to the operations of the well and is in the process of having the bond released.

Other San Joaquin Acreage (Salinas 100%)

The remaining leases in the San Joaquin Basin are all held by Salinas 100%. These leases are subject to the Farmout Agreement with Statesman which, upon completion of the transaction, will result in Salinas' equity reducing to 75%.

The regional study that is currently underway has upgraded the prospectivity of the area, but the Company will be managing its risk exposure of the planned exploration program through the farmout of additional equity upon completion of the regional study.

Louisiana

Reece (Salinas earning 63.75%)

This project will target relatively shallow (5,500 feet) oil and gas prospect onshore Louisiana. Salinas Energy has the right to assume operatorship in the event of success. The Company intends to reduce its equity in the project pre-drill but otherwise will fund 85% of the dry hole cost of the well to satisfy the earning requirement of the agreement.

CORPORATE

Financial

At the end of the quarter, the Company had cash reserves of some \$6.2 million in addition to cash deposits in the form of performance bonds totalling US\$2 million, of which US\$1 million is due for release on the finalisation of the withdrawal from the Windgap project.

Subsequent to the end of the quarter, a refund of US\$500,000 in cash was received which had previously been lodged as a deposit for the drilling rig. A further US\$400,000 is expected to be received shortly from Statesman Resources as repayment of back costs in respect to the recently executed Farmout Agreement. In total, the Company has approximately \$10 million in cash, performance bonds and short term receivables.

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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 2006

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	-	-
1.2	Payments for		
	(a) exploration and evaluation	(2,789)	(4,776)
	(b) development	(1,240)	(2,217)
	(c) production	-	-
	(d) administration	378	(497)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	133	264
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	74	74
	Net Operating Cash Flows	(3,444)	(7,152)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	(86)
	(b) equity investments	-	-
	(c) other fixed assets	(19)	(116)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	4,528
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	(267)
1.11	Loans repaid by other entities	-	-
1.12	Joint Venture Parties funds	(680)	2
	Net investing cash flows	(699)	4,061
1.13	Total operating and investing cash flows	(4,143)	(3,091)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	22	22
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	(28)
	Net financing cash flows	22	(6)
	Net increase (decrease) in cash held	(4,121)	(3,097)
1.20	Cash at beginning of quarter/year to date	10,422	9,369
1.21	Exchange rate adjustments to item 1.20	(107)	(78)
1.22	Cash at end of quarter	6,194	6,194

Payments to directors of the entity and associates of the directors
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	218
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	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	250
4.2	Development	2,000
Total		2,250

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	458	1,236
5.2	Deposits at call	5,736	9,186
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		6,194	10,422

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	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	179,492,690	179,492,690	
7.4	<i>Changes during quarter</i> Conversion of 75,000 unlisted options to ordinary shares	75,000	75,000	
7.5	Convertible debt securities	-	-	
7.6	<i>Changes during quarter</i>	-	-	
7.7	Options <i>Unlisted Options</i>		Exercise price	Expiry date
	22,375,000	-	\$0.30	31/12/07
	7,375,000	-	\$0.40	31/12/08
	1,000,000	-	\$1.00	31/03/09
	5,000,000	-	\$0.30	31/12/07
	2,050,000	-	\$0.50	31/12/07
	2,550,000	-	\$0.80	31/12/08
7.8	Issued during quarter	-	-	
7.9	Exercised during quarter	75,000	75,000	
7.10	Expired during quarter	75,000	-	
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

31 January 2007

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.

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