ANNOUNCEMENT TO THE AUSTRALIAN STOCK EXCHANGE: 16 MARCH 2007

# HORIZONTAL WELL SUCCESSFULLY DRILLED AND COMPLETED FOR PRODUCTION AT NORTH SAN ARDO

Salinas Energy is pleased to advise that the Lombardi 4-27H horizontal production well has been successfully drilled and completed for production.

The well has been drilled to a total measured depth of 4,195 feet encountering the oil saturated reservoir as predicted. A slotted production liner has been run over a 901 foot horizontal section in the Lombardi Sandstone oil reservoir and the well is being prepared for production testing.

The Lombardi 4-27H is the fourth well drilled by Salinas Energy on its 100% held North San Ardo oil project (NSA). The next phase of activity will involve production testing of the recently drilled vertical wells (Lombardi 2-27 and the Lombardi 3-27) together with testing of the horizontal well. The Company's first vertical well, the Lombardi 1-27 has been consistently producing through temporary facilities at 80 bopd (after initial rates of over 110 bopd) and will now be shut in pending installation of permanent production facilities. Commissioning of these facilities is scheduled for July this year.

In parallel with the drilling program the Company has completed designs for the NSA production facilities, is making application to the relevant authorities for an Authority to Construct (ATC) and has let orders for the major, long lead items of equipment. This includes a steam generation unit, fabrication of which is already well advanced and tankage with storage capacity of 7,000 bbls.

Development of the NSA is taking place in two stages.

Stage 1 is well advanced and involves:

- Acquisition of 3D seismic. Completed in December.
- Drilling of 3 vertical appraisal/come production wells – one of which has been production tested with two recently drilled wells pending testing.
- Drilling of 2 horizontal production wells, the first of which has just been completed and is pending production testing.
- Certification of reserves. This process has commenced.
- Design and installation of oil production facilities capable of handling steam enhanced, heavy oil production. Design complete and key equipment ordered.
- Commissioning of facilities, scheduled for July this year, supporting Stage 1 oil production of over 500 bopd.

Stage 2 will involve the full development of the field and subject to the results of Stage 1 is expected to commence later this year. It will involve up to 14 wells with increased volume handling capacity "bolted on" to the core production facilities established during Stage 1.

Commenting on the most recent results, Salinas Energy's Managing Director John Begg said:

*"We have just met another of the key, technical challenges relating to this project by drilling and completing under budget, a horizontal well in the oil reservoir. We look forward to the results in due course of the production testing of the well. Based on what we have been able to achieve from the Lombardi 1-27 vertical well, we are confident of a strong flow rate."*


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