



QUARTERLY REPORT

KEY RESULTS

Salinas Basin:

North San Ardo (NSA):

- 2 vertical wells – testing oil at approximately 100 bopd.
- 1 Horizontal well – initial test rates of 500 bopd to 1,000 bopd with gas.
- Northern lobe (extension of field) proved by appraisal drilling.
- Reserves certification underway.
- Production facilities designed and being fabricated.

San Joaquin Basin:

- Interests (25%) earned in North Yowlumne project.
- Regional prospect mapping project well advanced.

OVERVIEW

A very active quarter for the Company with proof of the commercial potential of the North San Ardo oil project (NSA) coming from strong positive results in all wells drilled and tested.

The Company's successful drilling and testing activities at NSA have set up the project for independent certification of reserves, a transition to long term oil production and cashflow from early in Q3 this year. So far the results being achieved appear to be superior to analogue, heavy oil fields.

The knowledge and capabilities the Company is establishing in the Salinas Basin has lead to identification of other nearby growth opportunities, which are being aggressively pursued. Results of this acquisition program will be made known in the next quarter.

In the San Joaquin Basin our regional mapping project is nearly completed and should lead to confirmation of a range of attractive light oil drilling targets.

A core project is the South Buena Vista area which includes the North Yowlumne oil discovery. The Company is in the process of being assigned its 25% interest in this project and hopes soon to be in a position to confirm the location and timing of a follow up well.

Expenditure was significant during the quarter and was consistent with the high level of development activity. However Salinas remains financially secure with over \$5.5 million in cash and security bonds. The Company is also well advanced in establishing a line of credit for the continued development of its NSA field and other projects.

PROJECTS

Salinas Basin

North San Ardo Oil Project (Salinas 100%)

Phase 1 of the development of the NSA continued apace during the quarter with productivity and oil sales from the Lombardi 1-27 well, the drilling and completion of the Lombardi 2-27 and 3-27 vertical appraisal wells together with the Company's first horizontal development well, Lombardi 4-27.

Production testing has since been successfully carried out on the Lombardi 2-27 well and initial testing of Lombardi 4-27, the horizontal well, has generated extraordinary results.

Initial production rates of approximately 100 bopd are being achieved in the vertical wells and it is believed that a stabilised rate for the horizontal well will be many times this level. Importantly the wells are currently producing on pump-assisted primary production, without the necessity for injection of large amounts of steam to stimulate flow of the heavy oil (11-12° API gravity). These results are at the high end of expectations and should enhance project economics.

The Stage 1 development program has proved the field is characterised by north and south lobes, and a central production facility (CPF) has been designed to drain both areas. The CPF should be commissioned during Q3 2007. The CPF is designed to handle over 2000 bopd of oil production which should be achieved during Stage 2, the full development of the field, which is scheduled to commence by Q4, 2007. Stage 2 capital expenditure will focus mostly on drilling and completion of additional producers to maximise the economic recovery of the NSA reserves.

Based on the 3D seismic acquired last quarter and well control the Company maps a substantial oil-in-place resource. An independent engineering firm with significant experience in heavy oil fields is currently assessing the oil reserves attributable to the project and the results should be available during Q2 2007

Production testing of the Lombardi 1-27 continued throughout most of the quarter until testing was suspended on 15 March 2007. During the test period, the well produced approximately 3,500 barrels of oil which was sold to a local refinery. The well was shut-in pending completion of the permanent production facilities and the equipment released for the testing of Lombardi 2-27 and Lombardi 4-27.

The Company is actively reviewing prospects and expanding its acreage position in the Salinas Basin to leverage its experience in this core area. Announcements on the progress of the activity will be made at the appropriate time in the future.

San Joaquin Basin

An extensive regional mapping project (based on Salinas' large data base of wells and 3D seismic) covering the prospective areas of the southern San Joaquin Basin is nearing completion. Once the identified drilling targets have been technically assessed and ranked in order of commercial merit, the Company will actively seek partners to fund a drilling program that is expected to commence by the second half of 2007.

Appendix 5B

Mining exploration entity quarterly report

Name of entity

Salinas Energy Limited

ABN

49 002 796 974

Quarter ended ("current quarter")

31 March 2007

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	128	128
1.2 Payments for		
(a) exploration and evaluation	(943)	(5,719)
(b) development	(2,075)	(4,292)
(c) production	(436)	(436)
(d) administration	(237)	(734)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	101	365
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	14	88
	(3,448)	(10,600)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	(86)
(b) equity investments	-	-
(c) other fixed assets	(85)	(201)
1.9 Proceeds from sale of:		
(a) prospects	450	450
(b) equity investments	8	4,536
(c) other fixed assets	-	-
1.10 Loans to other entities	-	(267)
1.11 Loans repaid by other entities	-	-
1.12 Joint Venture Parties funds	-	2
	373	4,434
Net investing cash flows		
1.13 Total operating and investing cash flows	(3,075)	(6,166)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	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)
	-	(6)
Net financing cash flows		
Net increase (decrease) in cash held		
1.20 Cash at beginning of quarter/year to date	6,194	9,369
1.21 Exchange rate adjustments to item 1.20	(27)	(105)
1.22 Cash at end of quarter	3,092	3,092

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	145
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	400
4.2	Development	1,500
Total		1,900

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	454	458
5.2	Deposits at call	2,638	5,736
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		3,092	6,194

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>	-	-	
7.5	Convertible debt securities	-	-	
7.6	<i>Changes during quarter</i>	-	-	
7.7	Options		Exercise price	Expiry date
	<i>Unlisted Options</i>	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	-	-	
7.10	Expired during quarter	-	-	
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

27 April 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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