



QUARTERLY REPORT

KEY RESULTS

Salinas Basin:

North San Ardo:

- 5.5 mmbbls proved plus probable (2P) reserves certified.
- Lombardi 4-27 horizontal well production tests at stabilised rates of over 560 bopd.
- Fabrication and installation of 2,000 bopd capacity production facility underway.
- Sales of 7,383 barrels of oil during initial production testing.

Paris Valley:

- Acquired right to earn 50% in the Paris Valley oil field estimated to have over 100 million barrels oil in place, located 6 miles along trend from North San Ardo.

McCool Ranch:

- Acquired right to earn 100% interest in the McCool Ranch oil pool, estimated to have approximately 5 million barrels of oil in place and located within 1 mile of North San Ardo.

San Joaquin Basin:

- The Company has earned its interest in the South Buena Vista project area and planning is advanced for drilling the North Yowlumne-2 follow-up well.
- Additional drilling targets are being identified by a comprehensive exploration study being undertaken over the southern San Joaquin Basin.

Corporate:

- Successfully raised \$6.0 million issuing 15 million shares.
- Finalising bridge facility for US\$5M to fund short term development expenditure at North San Ardo.

OVERVIEW

During the last quarter the Company has been mainly focused on its North San Ardo (“NSA”) oil field development. The success of the project is underpinned by the recent booking of 5.5 mmbbls of proved plus probable (2P) reserves and excellent oil production test results. Development activities are now in full swing with construction and development drilling activity being the short term focus.

Salinas is now on a fast track to long term oil production and cash flow from NSA and is developing an inventory of similar heavy oil projects, including the recently announced acquisitions of the McCool Ranch and large Paris Valley projects. The Company is earning its interest in these fields by carrying out work programs over the next 12 months using modern techniques designed to re-establish commercial production. These fields were shut in many years ago when oil prices were much lower.

These acquisitions, together with leasing of exploration acreage in the San Ardo area has resulted in the Company becoming the most active and largest independent acreage holder in this oil prone area.

The Company is also nearing completion of a comprehensive exploration study of the southern San Joaquin Basin. This project is unique in the area and has involved integrating data from hundreds of wells, thousands of miles of 2D seismic and thirteen 3D seismic surveys. As part of this project, a follow up location for the North Yowlumne ST-1 oil discovery has been validated and a number of other attractive prospects have been identified in the Company’s areas of interest.

With the development activities in the San Ardo area and exploration projects being matured for drilling in the San Joaquin Basin, the next six months will be an active and important period in the Company’s short history.

PROJECTS

Salinas Basin

North San Ardo Oil Project – (Salinas 100%)

NSA is progressing rapidly toward installation of permanent facilities and long term oil production and cash flow. Commissioning of the permanent facilities is expected in late September, with development drilling activity expected to commence early October.

Technically the field has so far exceeded expectations with independently certified 2P reserves of 5.5 million barrels from just over 15.0 millions barrels of oil in place. This represents a recovery factor of some 37%. The adjacent giant San Ardo oil field which also produces from the same reservoir has to date recovered approximately 40% of the estimated oil in place and continues to produce at commercial rates.

The current focus is on installation and then commissioning of the permanent production facilities following the successful production testing programs in which stabilised rates of over 560 bopd were attained from the Lombardi 4-27 horizontal well. All the key components of the facilities have been fabricated or procured and are now being mobilised to site for assembly and construction.

The Company’s progress at NSA has demonstrated the Company’s development and operating capabilities which have been a key ingredient to successfully negotiating the McCool Ranch and Paris Valley acquisitions.

Paris Valley Oil Field – (Salinas earning 50%)

Salinas has agreed with Nations Petroleum to carry out a work program (funded by Salinas) designed to prove the commercial potential of this large oil field on trend from NSA.

The earning work program will involve drilling and testing 2 vertical wells, acquiring 3D seismic and 2 horizontal wells. Activity will commence later in the year with drilling expected to occur following the second phase of development drilling at NSA in early 2008.

It is hoped that by applying the modern techniques that Salinas is utilising at NSA, in particular horizontal drilling guided by 3D seismic, that a proportion of the oil in place at Paris Valley, estimated over 100 million barrels can be converted to reserves.

McCool Ranch Oil Pool – (Salinas earning 100%)

As with Paris Valley, Salinas is planning a work program to commercialise this smaller field which is located within one mile of NSA. This will initially involve the work over of a selection of the existing wells on the field, followed by a horizontal well in late 2007.

San Joaquin Basin

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

Salinas has earned its interest in the leases covering the South Buena Vista AMI which includes the acreage surrounding the North Yowlumne project which has recently been re-mapped by the Company. The mapping of the structure which is based on 3D seismic shows strong evidence of a large sand body in a stratigraphic trapping configuration.

The interpretation indicates that a second well can be located where thicker, better quality sands than those which tested light oil in the original well should be present. Selection of a well location and design of a well program for drilling in the next quarter is currently being agreed by the joint venture.

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 previously announced Farmout Agreement with Statesman Resources Ltd (TSX: SRR) which, upon completion of the earning obligations (Statesman will fund 37.5% of drilling costs to earn 25% in each drilled lease area), will result in Salinas' equity reducing to 75%.

The Company is nearing completion of a comprehensive mapping project of the southern San Joaquin Basin which has involved integrating data from hundreds of wells, thousands of miles of 2D seismic and 13 3D seismic surveys. From this study, a number of prospects have been identified and will now be ranked for drilling.

As part of the overall Basin study, a decision has been made to drop the Buttonwillow lease held by the Company which will result in a moderate write-off for the financial year for costs previously capitalised for that lease.

Louisiana

Reese - Salinas earning 25%

Salinas has reduced its exposure to this project recently, introducing Transerv Australia Limited (ASX: TSV) as a farm-in partner. The new joint venture is planning a well on this relatively shallow (5500') prospect in a very oil and gas prone area, onshore Louisiana. The Reese project has good reserves potential and should be drilled during the next quarter.

CORPORATE

Financial

At the end of the quarter, the Company had cash reserves of some \$5.8 million in addition to cash deposits in the form of a performance bond totaling US\$1.0 million. The Company is also in the process of finalising a US\$5.0 million bridge facility to assist in the short term funding of the development drilling and production facilities at North San Ardo, prior to project delivering significant operating cash flows.

On 21 May, the Company completed a placement for 15 million shares at \$0.40 per share which raised \$6.0 million before costs. The placement was well supported and undertaken to assist in the funding of the growth opportunities in the San Ardo area, along with the ongoing exploration program. The capital raising was managed jointly by Argonaut and Patterson Securities Limited.

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")

30 June 2007

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	306	434
1.2	Payments for (a) exploration and evaluation	(1,823)	(7,542)
	(b) development	(2,656)	(6,948)
	(c) production	(118)	(554)
	(d) administration	(160)	(894)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	173	538
1.5	Interest and other costs of finance paid	(39)	(39)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	(202)	(114)
	Net Operating Cash Flows	(4,519)	(15,119)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	(338)	(424)
	(b) equity investments	-	-
	(c) other fixed assets	(411)	(612)
1.9	Proceeds from sale of: (a) prospects	258	708
	(b) equity investments	-	4,536
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	(267)
1.11	Loans repaid by other entities	240	240
1.12	Refund of security deposits	1,873	1,873
	Net investing cash flows	1,622	6,054
1.13	Total operating and investing cash flows	(2,897)	(9,065)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	6,000	6,022
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)	(300)	(328)
	Net financing cash flows	5,700	5,694
	Net increase (decrease) in cash held	2,803	(3,371)
1.20	Cash at beginning of quarter/year to date	3,092	9,369
1.21	Exchange rate adjustments to item 1.20	(116)	(219)
1.22	Cash at end of quarter	5,779	5,779

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	169
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	1,500
4.2	Development	3,200
Total		4,700

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	668	454
5.2	Deposits at call	5,111	2,638
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		5,779	3,092

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	Buttonwillow	Working Interest	100%	Nil
6.2	Interests in mining tenements acquired or increased	San Ardo area - various new leases	Working Interest	Nil	0-100%

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	194,492,690	194,492,690	
7.4	<i>Changes during quarter</i> Placement undertaken on 21 May 2007.	15,000,000	15,000,000	\$0.40
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 Pursuant to employment contracts	350,000	-	\$0.50
	350,000	-	\$0.80	31/12/08
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

31 July 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.