



QUARTERLY REPORT

KEY RESULTS

Salinas Basin:

North San Ardo:

- Revenue to date exceeds \$1.3 million from production testing.
- Two additional horizontal production wells drilled and ready for tie-in.
- Fabrication and installation of 2,000 bopd capacity production facility nearing completion.
- All permits received to allow permanent production to commence.

Paris Valley:

- Study reveals potential upside in large, untested compartment of the field.
- Commitment made to proceed to the next stage.
- Preparations for drilling program underway.

McCool Ranch:

- Potential field extension to the north identified and lease secured.
- Horizontal appraisal well commenced drilling on 21 October 2007.

San Joaquin Basin:

- Additional leases acquired over light oil prospects identified by the exploration study undertaken over the last 18 months.
- Follow up well on the large North Yowlumne oil prospect commenced drilling on 12 October 2007 and currently drilling ahead at over 9,000 feet.

Corporate:

- Subsequent to the end of the quarter, an additional \$3.15 million was secured with the issue of 7 million shares to two institutional investors.
- Bridge facility for US\$5M to fund short term development expenditure at North San Ardo signed on 20 September 2007.

OVERVIEW

During the last quarter the Company has continued to focus on its North San Ardo (“NSA”) oil field development. The NSA project has booked proved plus probable (2P) reserves of 5.5 mmbbls and excellent progress is being made on commercialising those reserves. The first stage development activities are now almost complete with the drilling of two additional horizontal production wells, completion of a water disposal well and the near completion of the facilities.

Salinas is developing an inventory of similar heavy oil projects in the region and is actively leasing prospective areas including the recently announced extension of the McCool Ranch project. The Company is currently earning its interest in the central part of this field by drilling a horizontal development well named Capps 1-22H which will be production tested over the coming months to determine the commercial significance of the field. The McCool oil pool is mapped with potential for a recoverable resource of up to 2 million barrels.

In addition, Salinas has almost completed its initial review of the Paris Valley field and has committed to the next stage of the work program, which will involve the drilling of both horizontal appraisal wells and vertical exploration wells. This activity is scheduled to commence in the second quarter of 2008.

The Company has also commenced drilling the North Yowlumne 2-26 which is a follow up to the North Yowlumne ST-1 light oil discovery. The well is being operated by our Joint Venture partner and is currently at over 9,000 feet and has a planned total depth of around 13,000 feet. The well is targeting a recoverable oil resource in excess of 20 mmbbls.

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%)

The first stage of drilling activity at NSA is now complete and the permanent facilities are due to be commissioned shortly. Production rates in excess of 1,000 bopd are expected to be achieved before the end of this year following the tie-in of the two additional horizontal production wells which were drilled during this quarter. The NSA field in this first development phase will have a total of five production wells on stream, three of which will be horizontal production wells.

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 completing for production the recently drilled wells and tie-in of these wells to the permanent production facilities. All the key components of the facilities have been fabricated or procured and are now being installed ready for commissioning.

The Company’s progress at NSA is being well received by our peers in the region and has provided Salinas with credibility as an innovative and capable operator.

Paris Valley Oil Field – (Salinas earning 50%)

Following completion of the initial review period, Salinas has committed to fund and operate a work program 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 seismic and 2 horizontal wells. Field activity will commence later in the year when additional 2D seismic coverage will be acquired with drilling activity expected to commence 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 at over 100 million barrels can be converted to reserves.

McCool Ranch Oil Pool – (Salinas earning 100%)

Salinas is drilling the first horizontal appraisal well (Capps 1-22H) on this previously abandoned oil field which was shut in many years ago when oil prices were lower and horizontal drilling techniques were not readily available. The drilling is expected to be completed by the end of October after which the rig will be released and a workover rig will be brought in to complete the well. The well will then be production tested to determine the commercial significance of this part of the field. The oil properties of the McCool Ranch oil pool are similar to NSA. Salinas will earn a 100% working interest in the Capps lease covering this part of the field and a 75% net profit interest.

Salinas has also acquired an additional 100% working interest in a lease area to the north of the Capps lease. This lease area is not subject to any net profit interests and if the oil volumes in this extension of the McCool Ranch oil pool are proved, significant additional value will accrue to Salinas.

San Joaquin Basin

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

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

The interpretation indicates that the new well location will intersect thicker, better quality sands than those which tested light oil in the original well. The well commenced on 12 October 2007 and is forecast to take 42 days to reach total depth of some 13,000 feet.

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 ranked for drilling. Additional leases have and are being acquired to secure the Company's position over the favoured prospects prior to drilling.

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

Louisiana

Reese - Salinas earning 25%

Planning is advanced for the drilling of 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 is scheduled to commence drilling in November 2007.

CORPORATE

Financial

At the time of reporting the Company had cash on hand of over \$4.0 million plus cash deposits in the form of a performance bond of US\$1.0 million. This, combined with execution of a US\$5.0 million bridge facility has provided the Company with the funds necessary to complete the NSA oil field development and carry out its other projects. The Company's cash position was increased from the \$1.7 million at bank (not inclusive of the performance bond) at the end of the quarter when proceeds were received from a placement on 29 September to two institutional investors of 7 million shares at \$0.45 per share which raised \$3.15 million before costs.

Cumulative oil revenues from the NSA field to the end of the quarter exceeded \$1.3 million. Sales have been constrained by both temporary facilities production testing operations and revenues will increase significantly over the coming months as the new production wells are tied in and the permanent facilities put into operation. Operating costs will remain higher during the production testing stage due to the cost of running the temporary facility. As the plant is fully commissioned, operating costs are expected to decrease, significantly increasing the operating margin per barrel.

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 September 2007

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	929	929
1.2	Payments for (a) exploration and evaluation	(2,361)	(2,361)
	(b) development	(2,027)	(2,027)
	(c) production	(354)	(354)
	(d) administration	(621)	(621)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	63	63
1.5	Interest and other costs of finance paid	(163)	(163)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(4,534)	(4,534)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(21)	(21)
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)	-	-
	Net investing cash flows	(21)	(21)
1.13	Total operating and investing cash flows	(4,555)	(4,555)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	450	450
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)	-	-
	Net financing cash flows	450	450
	Net increase (decrease) in cash held	(4,105)	(4,105)
1.20	Cash at beginning of quarter/year to date	5,763	5,763
1.21	Exchange rate adjustments to item 1.20	21	21
1.22	Cash at end of quarter	1,679	1,679

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	165
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	950
4.2	Development	3,150
Total		4,100

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	538	668
5.2	Deposits at call	1,141	5,111
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		1,679	5,779

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	Lamont	Working Interest	100%	Nil
6.2	Interests in mining tenements acquired or increased	San Ardo area - various new leases	Working Interest	Nil	0-100%
		San Joaquin Basin – 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	201,502,690	201,502,690	
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
		2,390,000	\$0.50	31/12/07
		2,900,000	\$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

29 October 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.