Salinas Energy Limited

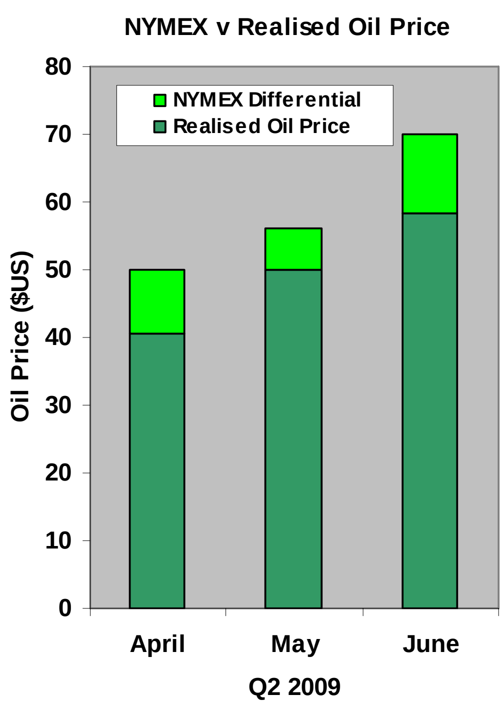
ANNOUNCEMENT TO THE AUSTRALIAN STOCK EXCHANGE: 31 JULY 2009

JUNE QUARTER SUMMARY

- **Strategic growth options being considered following corporate review**
- **North San Ardo currently producing around 320 bopd**
- **Reserves position revised to reflect unresolved lease negotiations**
- **Permits to drill at Paris Valley received from Monterey County**
- **Two new projects acquired via asset swap**
- **Cash balance steady at $3.7 million with no debt**
- **2008/09 financial results to be released 31 August 2009**

PRODUCTION AND REVENUE SUMMARY

	June 09 Qtr	Mar 09 Qtr	Dec 08 Qtr	Sept 08 Qtr	Full Year
Production (bbls)	29,923	42,461	55,555	78,649	206,588
Average Daily Production (bopd)	329	472	604	855	566
Revenues ($US)	$1.4M	$1.3M	$2.4M	$8.1M	$13.2M
Average Price per bbl ($US)	$48.37	$29.88	$41.59	$103.54	$64.07
Operating Cost per bbl ($US)	$11.51	$9.83	$12.75	$8.05	$10.48



OVERVIEW

Salinas remains in a financially robust position as at 30 June 2009. The Company has effectively reduced its operating cost base and despite production rates being slightly lower than forecast, due to unscheduled downtime during June, stronger oil prices are maintaining good margins per barrel of oil produced.

Cash on hand at the end of the quarter was $3.7 million, down marginally from $3.8 million as at March 2009. The Company generated revenue of $1.7 million (US$ 1.4 million) in the quarter and has no debt.

A number of expressions of interest were received from third parties to acquire a selection of the Company's Californian assets; however at this point in time, the Board has determined to continue to grow its business in California while seeking alternative proposals to grow the Company as a whole. In keeping with this, the Company recently added two new projects in the San Joaquin Basin via an asset trade agreement. In parallel, at least one other significant growth proposal which does not involve the sale of any assets is being considered by Salinas and the respective parties.

During the first half of the year, while coming to terms with the drastically changed oil price and capital markets environment, the Company reduced its exploration cost exposure to a minimum and halted all drilling activity, including development drilling at North San Ardo ('NSA'), which would otherwise have kept oil production at higher levels. During this period, the Company undertook a review of its reserves base and has made preparation for a resumption of drilling activities later in the year, by processing the required permits for its projects. Additionally, the Company is preparing trial steam enhancement of production at NSA as a cost effective alternative to drilling, to increase production on a well by well basis. All production from NSA to this point has been primary production, although most heavy oil production projects in California are steam enhanced.

Despite extensive negotiations with respect to the surrounding acreage of Salinas' principal NSA lease, the Company has been unable to conclude a satisfactory agreement with Chevron Corporation ('Chevron'), the adjacent lease holder.

Due to an historic agreement dating back to 1947, there has been and continues to be a level of uncertainty with respect to the rights of Chevron to a parcel of land within the original lease that covered the greater San Ardo area. Salinas leased this land in 2007, in good faith, from the mineral rights owners. This area contains approximately 1.6 mmbls of the original 5.5 mmbls (29%) mapped within what Salinas believed were its leases and consequently the reserves Salinas currently has unequivocal title to, has reduced by that amount. Allowing for this, together with production to date of 353,458 barrels, Salinas' estimated remaining recoverable reserves, as at 30 June 2009, amount to 3.6 mmbls.

Discussions on resolution of the matter have been ongoing for some time now and the Company continues to negotiate with Chevron to allow both Salinas and the mineral rights owners to fully exploit the lands in question for the benefit of all parties.

PROJECTS

Salinas Basin

<u>North San Ardo Oil Field – (Salinas 100%)</u>

Revenues improved slightly in the last quarter due to higher oil prices but production levels were around 30% lower than last quarter. During the month of June the Company had significant downtime associated with water disposal capability. The problems were principally as a result of recurring pump failures which meant water disposal capability was reduced by as much as 50% at certain times. Overall downtime for the quarter is estimated at 12%, but was as much as 20% in June which is reflected in the table below.

Month	Barrels*	Average BOPD	Sales Revenue ($US)
June	7,051	235	411,656
May	11,637	375	581,386
April	11,235	375	454,447
June Qtr Total	**29,923**	**329**	**1,447,489**
Prior Quarter	42,461	472	1,275,356

* These are gross sales volumes which are less than production volumes and have been corrected for temperature and BS&W.

Water disposal is a crucial part of the operation at NSA and an engineering consultant has been retained to evaluate the system and design enhancement measures. Remedial work to improve the system is estimated to cost up to US$300,000 and be completed within 60 days of initiation. Remedial work in itself will not increase production levels, but should ensure that future well downtime due to water disposal limitations is significantly reduced.

Regrettably during routine repair work on the water disposal pumps at the NSA facility, a sub-contractor was badly injured. The sub-contractor was airlifted to hospital for medical treatment including several operations. An investigation into the accident has been undertaken by the Company, the prime contractor and by the relevant authorities. The Company has done all that is necessary and appropriate in the circumstances and will take the required steps to ensure that an accident of this nature cannot occur again. The Company has formal operational safety manuals and procedures in place which are required to be followed at all times.

Operating costs continue to be reduced but unit cost per bbl has increased from US$9.83/bbl in the previous quarter to US$11.51/bbl this quarter, primarily as a result of reduced production. Total operating costs were 17% lower than March quarter and over 50% lower than the December quarter. Capital expenditure of US$96,000 consisted of expenditure replacing worn downhole pumps in several NSA producing wells, clean-out operations on the water disposal wells and repair work on the water injection pumps.

A trial cyclic steam program on at least one selected production well is planned during the next quarter. This is likely to boost oil production from that well and provide information for the design of a future production enhancement program, using steam. The cost of the steam trial will be approximately US$150,000.

<u>Paris Valley Oil Field – (Salinas earning 50%)</u>

Permits to drill up to six wells from two separate drill sites at Paris Valley have been received from the Monterey County authorities. Salinas is in advanced discussions with Nations Petroleum, (from whom Salinas is acquiring its interest in the project), on ways in which to progress drilling activities on the field which have been delayed to this point as a result of various land title issues.

<u>East San Ardo oil field extension project – (Salinas 100%)</u>

Following the preparation of new sub-surface maps by staff geologists Salinas acquired a 332 acre lease over a mapped extension of the giant San Ardo oil field.

The Company estimates oil in place of up to 8.6 million barrels and a low cost vertical well to a depth of 2,000 feet is being planned to test the resource potential. Permitting the initial wells is ongoing and expected to be granted within 90 days.

Exploration and Leasing Activity

During the quarter, the Company internally conducted geological, geophysical and engineering studies on some of the approximately 30,000 acres acquired in the Salinas Basin. As a result of the studies, Salinas was able to indentify exploration leads and prospects on the acreage and is working to introduce joint venture partners to further evaluate the potential of the prospects. Also as a result of the internal studies, Salinas identified existing leased acreage that is not likely to be oil productive and hence will not be renewed further reducing annual lease rental fees.

San Joaquin Basin

Southern San Joaquin Acreage

Salinas' core acreage in the Southern San Joaquin containing the Osso Bucco and Merlot prospects remains under lease and is being retained whilst farm out efforts continue.

Subsequent to the end of the quarter, Salinas concluded a transaction with Quest Petroleum (ASX:QPN) based on an acreage swap in which Salinas acquired an interest in a number of prospective leases, including mapped extensions of the Guijarral Hills and the Kettleman Middle Dome fields. In return, Quest has acquired a 12.5% interest in the Osso Bucco and Merlot prospects.

Negotiations are underway with various other parties to procure the drilling of a well on one or more of these prospects prior to 31 December 2009.

CORPORATE

The Board continues to consider all proposals with respect to the strategic options available to the Company. Previous proposals to acquire certain assets of Salinas have not met the requirements of the Board and the sales process has been temporarily suspended whilst other options are considered.

Having effected the changes needed to ensure a stable financial position, the Board expects in the next quarter, to return to drilling and other activities designed to grow the asset base of the Company.

Enquiries	*Director:*	*Dougal Ferguson*	
	Contact Details:	*Telephone:*	*08 9380 2111*
		Facsimile:	*08 9380 2112*
	Website:	*www.salinasenergy.com*	