Salinas Energy Limited

ABN 49 002 796 974

Appendix 4D – 31 December 2008 Half-Year Report

1. Reporting Period

The current reporting period is the period ended 31 December 2008 and the previous corresponding period is for the period ended 31 December 2007.

2. Results for Announcement to the Market.

	31 December 2008	31 December 2007	**% Change**
	$	$	
2.1 Revenue from ordinary activities.	**14,686,101**	3,795,958	**287%**
2.2 Profit (loss) from ordinary activities after tax attributable to members.	**(2,652,626)**	(5,333,555)	**56%**
2.3 Net profit (loss) for the period attributable to members.	**(2,652,626)**	(5,333,555)	**56%**
2.4 Amount per security and franked amount per security of interim dividend.	No interim dividends have been paid or provided for during the period		
2.5 Record date for determining entitlements to the dividends and payment date.	Not applicable		
2.6 Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	See Directors Report – Financial Report for the Half-Year Ended 31 December 2008.		

3. Net Tangible Assets Per Security

	31 December 2008	31 December 2007
	Cents	Cents
Net tangible assets* per ordinary share	**16.4**	14.7

* Net tangible assets = net assets excluding deferred tax assets and exploration expenditure

4. Gain or Loss of Control Over Entities

Not applicable.

5. Details of Dividend and Distribution Payments

No dividends or distributions have been paid or provided for during the period.

6. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

7. Associates and Joint Venture Entities

Not applicable.

8. Foreign Entities

Not applicable.

9. Audit Dispute or Qualification

None.

Salinas Energy Limited

ABN 49 002 796 974

FINANCIAL REPORT

FOR THE HALF – YEAR ENDED

31 DECEMBER 2008

CORPORATE DIRECTORY

Directors
Ian P Middlemas - Chairman
John D Begg - Managing Director
Dougal J Ferguson
Ronald L Miller

Company Secretary
Dougal J Ferguson

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Bakersfield Office
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Bakersfield, California, United States

Auditors
Ernst & Young

Bankers
Australia and New Zealand Banking Group Limited

Stock Exchange Listing
Salinas Energy Limited is listed on the Australian Securities Exchange (Symbol: SAE).

Share Register
Computershare Investor Services
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DIRECTORS' REPORT

The Board of Directors of Salinas Energy Limited present their report on the consolidated entity of Salinas Energy Limited ("the Company" or "Salinas") and the entities it controlled during the half year ended 31 December 2008 ("Consolidated Entity" or "Group").

Directors

The names of the Directors of Salinas Energy Limited in office during or since the end of the half-year until the date of this report were:

Current Directors
Ian P Middlemas - Chairman
John D Begg – Managing Director
Dougal J Ferguson
Ronald L Miller
David Bradley – resigned 31 December 2008

Unless otherwise indicated, all directors held their position as a director throughout the entire half-year and up to the date of this report.

Financial Results

The Group recorded a loss for the half-year ended 31 December 2008 of $2,652,626 compared to a loss of $5,333,555 for the half-year ended 31 December 2007.

Earnings before interest, tax, depreciation, impairments and amortisation (EBITDAX) were significantly improved at $6,854,411 compared to $1,066,278 for the corresponding period last year. This was a direct result of strong oil prices in the first three months of this financial year and increasing production rates through to the end of September but with lower contribution from the December quarter due mainly to the precipitous drop in oil prices.

A number of impairment charges resulting from the significantly changed oil price and commercial environment have however resulted in a loss being recorded for the half year despite the strong operational result.

An impairment charge of $4,849,424 has been provided against the North San Ardo (NSA) oil field principally due to the lower oil price outlook forecast by most commentators in the near term. At current oil prices of around US$40/bbl, the price received for NSA crude is less than US$30/bbl due to the discounted price received for heavy oil and this has a significant impact on the previously very robust field economics. The impairment charge has been calculated by comparing the discounted future cash flows of the asset versus the carrying value in the balance sheet.

An additional impairment charge of $2,212,292 has been provided against the exploration assets for this half year. The bulk of this impairment charge relates to expenditures on the as yet undrilled prospects in the Southern San Joaquin area. Although the overall prospectivity of the area has not diminished, it is evident that with current market conditions it is going to be more difficult to find third parties to fund the drilling of these prospects.

Forward Strategy and Outlook

Having grown the scale of its oil and gas portfolio significantly during a strong oil price environment the Company has enacted a range of measures to reduce costs and refined its strategies to preserve and where possible create value in a much less attractive oil price environment.

The fundamentals of the Company's programs in the short term are:

- the reduction of overhead to a minimal required level;
- maintenance of profitable oil production at NSA with minimal capital expenditure; and
- introduction of a strategic partnership either corporately or in joint venture to support exploitation of the Company's highly prospective land positions in its two focus areas, the Salinas and San Joaquin basins.

Cost reduction measures already enacted include the closure of the Perth office and a reduction of personnel across the organisation of almost 40%.

All capital expenditure is being tightly controlled including at NSA where the focus is on a low cost program to optimise oil production from the existing wells, deferring more expensive new development wells until economic conditions stabilise and payback periods improve.

Taking advantage of the pre eminent acreage position it now holds in its core areas, the Company has entered into discussions with a number of parties to fund programs in those areas over the next two years. Initial focus of the work programs will be to drill the shallow (less than 2,500 feet) heavy oil field targets, proving up reserves as cheaply as possible.

The large Paris Valley oil field and the East San Ardo oil field extension project are the most likely candidates for early drilling. Other programs are being considered which will verify the potential of prospects up dip from previous oil discoveries that were not adequately tested when originally drilled. The Company has at least two such projects within its Salinas Basin acreage. The largest of these is the Madrid prospect which has potential for up to 50 million barrels of oil in place.

The outlook for the Company in the current oil price environment is challenging, with the Company's current heavy oil production volumes not generating enough free cash flow to allow Salinas to fully evaluate its substantial acreage position. However the Company has no debt and has enacted measures to ensure that its expenditures do not substantially exceed its revenues.

PROJECTS

Salinas Basin

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

For the half year ended 31 December 2008, oil production at NSA was approximately 729 bopd with 134,204 barrels of oil produced, the Company's highest six month production level since bringing the field on line late in 2007.

Unfortunately rapidly declining oil prices over recent months dramatically reduced the received oil price (which is discounted for heavy crude) to less than US$30 per barrel and as a consequence operating profit margins fell to approximately US$10 per barrel.

The Company maps a number of infill production well drilling locations on the field which if drilled would increase production. This drilling has been deferred until the economic climate improves and acceptable times to payback on the drilling investment can be achieved.

In the meantime a low cost program of well optimisations will be carried out to maintain as far as possible current production levels and maintain field profitability.

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

Salinas maps a Contingent Resource of over 41 million barrels of recoverable oil in the Paris Valley heavy oil field. There are some 34 old wells that encountered oil in the field that help to control the mapping of the oil accumulation. The majority of these wells are in the central compartment (CPV) but the large northern compartment of the field (NPV) has been penetrated by 10 wells and although not as well defined, contains approximately 80% of the oil volume. The Company plans to drill its first well in NPV. This first well, budgeted at US$300,000 will be a vertical core hole to approximately 1,000 feet designed to capture information about the properties and quality of the sandstone reservoir and oil.

To ensure the Company's cost exposure is kept to a minimum until oil prices improve it is planned that the drilling of the first two wells will be offset by the introduction of a joint venture partner. Final permitting for the first well is nearing completion. Permitting activity for the project can be affected in some areas by limitations to surface access.

East San Ardo oil field extension project – (Salinas 100%)

Resulting from mapping carried out in June last year Salinas acquired a 337 acre lease over a mapped extension of the giant San Ardo oil field. The Company acquired the land at low cost and with a lower royalty burden than NSA.

A 2D seismic line was subsequently shot across the lease which helped to refine the mapping and has supported an upwards revision to the oil potential. 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 will be required to prove up the mapped volumes. Permits to drill have already been received from the authorities.

Exploration and Leasing Activity

Salinas has been the most active independent producer and operator of oil acreage in the Salinas Basin and during recent times with the Company's land holdings increased to over 42,000 acres (gross) on trend with or surrounding existing fields. Most of the acreage was acquired at relatively low cost by optioning the land with a commitment to convert to leases at a later date if the oil potential merits.

In addition to the projects summarised above this acreage contains a wide variety of leads and prospects at varying stages of definition and with oil in place potential ranging from five to fifty million barrels per prospect.

The acreage is concentrated in a NW-SE trending zone covering the shallow sandy shelf and adjacent, more highly structured margin to the original deep basin. This zone also hosts most of the known oil accumulations in the Basin. Although most of the discovered oil is heavy (less than 14 degrees API) a number of the existing fields also contain lighter crude and the Company believes that there is significant light oil potential in the acreage it holds. A geological, geophysical and engineering evaluation of the land is planned over the next 6 to 12 months to document the potential, prioritise the acreage that will be kept and confirm drill targets. The cost of this program is intended to be offset by the introduction of farm-in partners.

San Joaquin Basin

Southern San Joaquin Acreage - (Salinas 100%)

Salinas continued with a program to farm-out the drilling costs of the currently mature for drilling Osso Bucco and Merlot prospects. In the current economic environment, it is proving difficult to find partners willing to participate in these deeper, more expensive wells. Accordingly, the Directors have determined that it is appropriate to provide for an impairment of the costs associated with the exploration studies undertaken. The carrying value of the asset is impaired to its estimated recoverable value. The impairment makes up the majority of the impairment charge for the current half-year.

Corporate

The Company continues to focus on ways it can add value to its business and is constantly reviewing a wide range of opportunities. The Company has had numerous approaches from interested parties to participate in its activities in the Salinas Basin and despite the current economic conditions, the Board is confident that it can add value through a transaction with one or more of these parties within the next six to twelve months.

Following a 12 month program of selected share buy-backs, the Company ceased the program on 23 January 2009 having acquired a further 2,767,130 of its own shares at a cost of $774,728 in the six months ended 31 December 2008.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of Salinas Energy Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page six.

This report is made in accordance with a resolution of the Directors.

JOHN BEGG
Managing Director
Perth, 27 February 2009

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Auditor's Independence Declaration to the Directors of Salinas Energy Limited

In relation to our review of the financial report of Salinas Energy Limited for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Peter McIver

P McIver
Partner
Perth
27 February 2009

PM:JC:SALINAS:024

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Salinas Energy Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position as at 31 December 2008 and the performance for the half-year ended on that date of the consolidated entity; and

  (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

JOHN BEGG
Managing Director

Perth, 27 February 2009

INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

		Consolidated	
	Note	**31 December 2008 $**	31 December 2007 $
Continuing operations			
Revenue	**3**	**14,686,101**	3,795,958
Operating expenses		**(1,988,810)**	(874,765)
Royalty payments		**(2,908,878)**	(798,880)
Depreciation and amortisation expense		**(2,437,218)**	(378,222)
Costs related to renewable energy inventory sale		**(150,000)**	-
Cost of Sales		**(7,484,906)**	(2,051,867)
Gross Profit		**7,201,195**	1,744,091
Impairment of exploration and evaluation assets		**(2,212,292)**	(5,870,322)
Impairment of oil and gas properties		**(4,849,424)**	-
Corporate and administration expenses		**(2,190,961)**	(978,173)
Business development expenses		**(488,331)**	(33,988)
Other expenses		**(110,421)**	-
Finance costs		**(2,392)**	(195,163)
Loss before income tax expense		**(2,652,626)**	(5,333,555)
Income tax expense		**-**	-
Loss for the period		**(2,652,626)**	(5,333,555)
Net loss for the period attributable to members of Salinas Energy Limited		**(2,652,626)**	(5,333,555)
Basic loss per share for the period (cents per share)		**(1.1)**	(2.7)
Diluted loss per share for the period (cents per share)		**(1.1)**	(2.7)

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET
AS AT 31 DECEMBER 2008

		Consolidated	
	Note	**31 December 2008 $**	30 June 2008 $
ASSETS			
Current assets			
Cash and cash equivalents	**5**	**6,572,639**	6,073,425
Trade and other receivables		**916,364**	3,951,929
Inventories		**293,841**	382,859
Prepayments		**347,808**	-
Total current assets		**8,130,652**	10,408,213
Non-current assets			
Available for sale investments		**45,019**	155,440
Property, plant and equipment		**373,736**	294,925
Exploration and evaluation assets	**6**	**7,431,341**	5,467,151
Oil and gas properties	**7**	**33,920,323**	25,773,484
Total non-current assets		**41,770,419**	31,691,000
Total assets		**49,901,071**	42,099,213
LIABILITIES			
Current liabilities			
Trade and other payables		**2,847,563**	4,521,461
Provisions		**142,867**	142,979
Total current liabilities		**2,990,430**	4,664,440
Non-current liabilities			
Provisions		**712,776**	455,987
Total non-current liabilities		**712,776**	455,987
Total liabilities		**3,703,206**	5,120,427
Net assets		**46,197,865**	36,978,786
EQUITY			
Contributed equity	**9**	**100,526,627**	101,301,355
Reserves		**6,830,150**	(5,816,283)
Accumulated losses		**(61,158,912)**	(58,506,286)
Total equity		**46,197,865**	36,978,786

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

Consolidated

	Issued Capital $	*Retained Earnings* $	*Investments Available for Sale Reserve* $	*Option & Rights Premium Reserve* $	*Foreign Currency Translation Reserve* $	*Total Equity* $
Balance at 1 July 2008	**101,301,355**	**(58,506,286)**	**-**	**1,216,871**	**(7,033,154)**	**36,978,786**
Currency translation reserve	-	-	-	-	12,216,666	12,216,666
Total income and expense for the period recognised directly in equity	-	-	-	-	12,216,666	12,216,666
Loss for the period	-	(2,652,626)	-	-	-	(2,652,626)
Total income / (expense) for the period	-	(2,652,626)	-	-	12,216,666	9,564,040
Rights Granted	-	-	-	155,513	-	155,513
Options Granted	-	-	-	274,254	-	274,254
Share buy-back	(774,728)	-	-	-	-	(774,728)
Balance at 31 December 2008	**100,526,627**	**(61,158,912)**	**-**	**1,646,638**	**5,183,512**	**46,197,865**
Balance at 1 July 2007	**82,482,321**	**(50,112,669)**	**-**	**2,540,443**	**(2,983,813)**	**31,926,282**
Currency translation reserve	-	-	-	-	(1,109,271)	(1,109,271)
Net losses on available for sale financial assets	-	-	(69,598)	-	-	(69,598)
Total income and expense for the period recognised directly in equity	-	-	(69,598)	-	(1,109,271)	(1,178,869)
Loss for the period	-	(5,333,555)	-	-	-	(5,333,555)
Total income / expense for the period	-	(5,333,555)	(69,598)	-	(1,109,271)	(6,512,424)
Options Granted	-	-	-	16,487	-	16,487
Shares issued	19,949,058	-	-	(1,699,058)	-	18,250,000
Share issue expenses	(533,700)	-	-	-	-	(533,700)
Balance at 31 December 2007	**101,897,679**	**(55,446,224)**	**(69,598)**	**857,872**	**(4,093,084)**	**43,146,645**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated 31 December 2008 $	Consolidated 31 December 2007 $
Cash flows from operating activities			
Receipts from customers		**17,568,894**	2,229,890
Payments to suppliers and employees		**(8,147,556)**	(1,297,795)
Interest received		**152,771**	131,596
Finance costs paid		**(2,392)**	(195,163)
Net cash flows from operating activities		**9,571,717**	868,528
Cash flows from investing activities			
Development expenditure		**(6,539,385)**	(8,554,319)
Exploration and evaluation expenditure		**(2,064,077)**	(4,762,776)
Purchase of property, plant and equipment		**(1,488)**	(32,503)
Net cash flows used in investing activities		**(8,604,950)**	(13,349,598)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	18,250,000
Transaction costs of issue of shares		**-**	(499,500)
Share buy-back payments		**(815,109)**	-
Proceeds from borrowings		**-**	3,839,850
Net cash flows from/(used in) financing activities		**(815,109)**	21,590,350
Net increase in cash and cash equivalents		**151,658**	9,109,280
Net foreign exchange differences		**347,556**	54,315
Cash and cash equivalents at the beginning of the period		**6,073,425**	5,763,423
Cash and cash equivalents at the end of the financial period	**5**	**6,572,639**	14,927,018

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

Note 1. Corporate information

The financial report of Salinas Energy Limited (the Company) for the half-year ended 31 December 2008 was authorized for issue in accordance with a resolution of the directors on 27 February 2009.

Salinas Energy Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in note 4.

Note 2. Summary of significant accounting policies

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2008 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2008 and considered together with any public announcements made by Salinas Energy Limited during the half-year ended 31 December 2008 in accordance with the continuous disclosure obligations of the ASX listing rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

(b) Changes in accounting policy

From 1 July 2008 The Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2008.

- AASB 2008-10 *Amendment to Australian Accounting Standards – Reclassification of Financial Assets (amendments to AASB 139 Financial Instruments: Recognition and Measurement and AASB 7 Financial Instruments Disclosures)*
- Interpretation 12 and AASB 2007-2 *Service Concession Arrangements* and consequential amendments to other Australian Accounting Standards
- Interpretation 129 *Service Concession Arrangements: Disclosures*
- Interpretation 4 (revised) *Determining whether an arrangement contains a lease*
- Interpretation 13 *Customer Loyalty Programmes.*
- Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

Note 3. Revenue, Income and Expenses

	Consolidated	
	31 December 2008 $	31 December 2007 $
Revenue		
Oil Sales	**13,638,726**	3,641,739
Finance Income	**152,771**	154,219
Other Revenue(i)	**894,604**	-
Total revenue	**14,686,101**	3,795,958

(i) During the half year inventories in the renewable energy business to the value of $150,000 were sold for $894,604. This resulted in a profit of $744,604.

Note 4. Segment Information

The Group operated in two business segments during the current half year.

	Segment Revenue		Segment Result	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
Oil and Gas	**13,638,726**	3,641,739	**(1,846,671)**	(4,602,333)
Renewable Energy	**894,604**	-	**744,604**	(38,225)
Unallocated	**152,771**	154,219	**(1,550,559)**	(692,997)
Consolidated	**14,686,101**	3,795,958	**(2,652,626)**	(5,333,555)

Note 5. Cash and cash equivalents

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	Consolidated	
	31 December 2008 $	31 December 2007 $
Cash at bank and in hand	**565,536**	849,827
Short-term deposits	**6,007,103**	14,077,191
	6,572,639	14,927,018

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Consolidated	
	31 December 2008 $	30 June 2008 $
Note 6. Exploration and Evaluation assets		
Opening Balance	**5,467,151**	10,447,435
Foreign exchange on opening balance	**2,112,405**	(1,031,090)
Additions	**2,064,077**	8,487,735
Impairment of exploration and evaluation assets	**(2,212,292)**	(12,436,929)
	7,431,341	5,467,151

The impairment of exploration and evaluation assets in the current half-year relates to previously capitalised expenditures for the Southern San Joaquin exploration area which may no longer be recoverable due to the current economic climate which may result in drilling activity on those leases being delayed or deferred. The impairment expense for the previous half-year was in respect to exploration drilling and evaluation expenditure in relinquished lease areas in the Southern San Joaquin.

Note 7. Oil and Gas Properties

	Plant and Equipment $	Rehabilitation Asset $	Development $	Total $
Opening Balance	4,623,663	443,796	20,706,025	**25,773,484**
Foreign Exchange Differences	1,778,437	177,365	7,914,295	**9,870,097**
Additions	2,269	71,195	5,489,920	**5,563,384**
Amortisation	-	-	(2,207,116)	**(2,207,116)**
Depreciation	(199,183)	(30,919)	-	**(230,102)**
Impairment of oil and gas	-	-	(4,849,424)	**(4,849,424)**
Total oil and gas properties	6,205,186	661,437	27,053,700	**33,920,323**

The impairment of the oil and gas properties in development in the current half-year is due to the significantly lower oil price forecast over the life of the Group's main producing asset. The impairment charge has been calculated by comparing the discounted future cash flows of the asset versus the carrying value in the balance sheet.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

Note 8. Share-based Payment Plans

a) Salinas Energy Share Incentive Plan

During the half year 488,750 shares were issued to staff pursuant to the Salinas Energy Share Incentive Plan. The shares issued represented the amount that vested during the 2007/08 financial year. The vesting conditions were individual employee performance and the Company's relative share price performance. A total of 50% of the shares met the relevant vesting provisions.

Further rights to shares (Achievement Rights) were issued to staff in September 2008 totalling 1,786,250 and will be subject to vesting criteria up to June 2010.

The fair value of the Achievement Rights granted has been valued on taking into consideration the following factors:

- The relative share price volatility of Salinas Energy and the stocks that make up appropriate index;
- The temporal relationship between the share price volatility of Salinas Energy and its peer stocks; and
- The distribution of Salinas' relative performance over time which enables the calculation of the probability of vesting conditions being met.

b) Salinas Energy Employee Share Option Plan

Options totalling 3,900,000 were issued in September 2008 to selected senior management and directors pursuant to the terms and conditions of the Salinas Energy Share Option Plan ("ESOP") as approved by shareholders on 22 November 2007. Options issued during the half-year have expiry dates and exercise prices as per the following table:

Option Tranche	Exercise Price	Grant Date	Number Granted	Expiry Date
Employee Options – Tranche A	$0.40	23/09/08	1,250,000	31/08/11
Employee Options – Tranche B	$0.40	23/09/08	1,250,000	31/08/11
Director Options – Tranche A	$0.40	25/11/08	525,000	31/08/11
Director Options – Tranche B	$0.40	25/11/08	525,000	31/08/11
Director Options – Tranche A	$0.50	25/11/08	175,000	31/08/11
Director Options – Tranche B	$0.50	25/11/08	175,000	31/08/11

The terms of the ESOP provide that options issued pursuant to the plan will vest as follows;

a) as to 50% of any options issued, 12 months from the date the options are issued,

b) as the total amount of options issued, any time after the expiration of 24 months from the date of issue.

The options have a life of three years from the date of issue, after which time they will expire. Participants ceasing to be Eligible Employees will be offered three months from the date of cessation of holding office, employment and/or consulting as the case may be in which to exercise the relevant outstanding options, failing which said options will lapse and be cancelled.

Other terms relevant to the ESOP are as follows;

- No monies will be payable for the issue of the Options.
- Each Option shall carry the right in favour of an Eligible Employee to subscribe for one Share.
- The issue price of Shares, the subject of the Options, shall be payable in full on exercise of the Options.
- Options shall not be listed for official quotation on the Australian Securities Exchange.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

Note 8. Share-based Payment Plans (continued)

- Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- Option holders shall not be entitled, by virtue of the unexercised Options, to participate in rights issues or bonus Share entitlements in the same manner as holders of ordinary shares.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Sholes model. The following tables detail the factors and assumptions that were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
23/09/08	31/08/11	$0.050	$0.40	$0.25	58%	5.62%	0.00%
23/09/08	31/08/11	$0.069	$0.40	$0.25	62%	5.61%	0.00%
25/11/08	31/08/11	$0.020	$0.40	$0.13	71%	3.45%	0.00%
25/11/08	31/08/11	$0.022	$0.40	$0.13	71%	3.54%	0.00%
25/11/08	31/08/11	$0.015	$0.50	$0.13	71%	3.45%	0.00%
25/11/08	31/08/11	$0.017	$0.50	$0.13	71%	3.54%	0.00%

Expected volatilities for all options were based on the previous 12 months historical volatility of the Company share price.

Note 9. Contributed Equity

Ordinary Shares

Date	Details	Number	$
1 July 2008	***Opening Balance***	***239,359,458***	***101,301,355***
July 2008	Share Buy Back	(600,000)	(201,950)
Aug 2008	Share Buy Back	(1,307,985)	(395,556)
Sep 2008	Share Buy Back	(515,000)	(122,987)
Sep 2008	Issue of Shares to Staff	488,750	-
Oct 2008	Share Buy Back	(344,145)	(54,235)
31 Dec 2008	**Closing Balance**	**237,081,078**	**100,526,627**

Note 10. Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material change of any contingent assets or liabilities.

Note 11. Dividends Paid and Proposed

No dividend has been paid or proposed during the half year.

Note 12. Events after Balance Date

There have been no events after balance date that has had a material affect on the Company.

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To the members of Salinas Energy Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Salinas Energy Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Salinas Energy Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Salinas Energy Limited is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half year ended on that date; and

ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst + Young

Ernst & Young

P McIver
Partner
Perth
27 February 2009