

## Quarterly Activities Report For the Period ending 30 September 2007

### Summary

During the three months ending 30 September 2007, SAPEX Limited has:

- Completed coal resources assessment on its coal Exploration Licences using consultants
- Signed a Memorandum of Understanding with Linc Energy to Joint Venture Underground Coal Gasification project.
- Continued geological and geophysical work with respect to the company's interests in oil, gas, coal-seam-gas and coal interests.

The company advises that the Annual General Meeting will be held on 22 November 2007 in the Adelaide #1 Room of the Playford Sebel Hotel, North Terrace Adelaide SA commencing at 10:30 am.

# 1. Work Completed

## 1.1. General

- At the end of the period under review, the Environmental Impact Reports (EIR) and the Company's Statement of Environmental Objectives (SEO), covering drilling and seismic projects, had completed the six week public consultation period. At the end of the period under review, the comments from various stakeholders were being collated and reviewed.

These reports cover all the licence areas in the Arckaringa Basin (PELs 117, 118, 119, 121,122,123 and 124)

## 1.2. Coal

- The consultant group, Geos Mining, completed the coal resources assessment for Exploration Licence, EL 3326 (Weedina). The result is that the EL contains:
  - One billion tonnes of inferred resources of sub-bituminous coal in 6 seams located in the south-central area of the licence.
  - Outside of this inferred resource there is an exploration target of 2 billion tonnes of sub-bituminous coal within the EL area.

The assessment was made in accordance with the JORC principles.

This report was released to the ASX on 8 August 2007.

Therefore the combined resource assessment of EL 3325 and EL 3326 totals 1.6 Billion tonnes of inferred resource and an additional exploration target of 3 to 4 Billion tonnes of sub-bituminous coal.

The two EL areas in the Arckaringa Basin cover a combined area of 389 sq km within 3,600 sq km of an "envelope" of seismically mapped envelope of coal occurrence. SAPEX has the rights to CSG over the entire area.

- On 19 July 2007, SAPEX signed a Memorandum of Understanding (MOU) with Linc Energy Ltd to pursue Underground Coal Gasification (UCG) projects leading to production of gas for low Greenhouse gas emissions power and then potentially to "Gas-to Liquids" (GTL) clean diesel.

Under the MOU, project areas will be selected from within EL 3325, EL 3326 and PEL 120 for initial trial and subsequent work.

## 1.3. Coal Seam Gas

- A report on the assessment of available coal and coal bore data was in final stages of preparation at the end of the reporting period. The report will be the basis for the site selection of core drill holes to analyse the potential of the coals for gas content.
- A suitable drilling rig for the project has not yet been secured but efforts are continuing.

#### **1.4. Petroleum Exploration**

- The layout of the lines for the seismic survey was completed and assessed. Work area clearance for anthropological, Aboriginal Heritage and environmental purposes was completed during the month of September. However, there are a number of logistical and site issues that need to be addressed as part of the planning process for the survey. SAPEX is working with the seismic contractor on these matters.

## **2. Work Planned**

### **2.1. General**

- The EIR and SEOs are anticipated to be completed and gazetted by the SA Government in early November, 2007. This gazettal will then permit field activities to be undertaken.

### **2.2. Coal**

- UCG Project:
  - Linc Energy is designing a program which will include site selection during the current quarter followed by drilling in the first quarter of 2008.
  - Linc Energy will focus drilling in two areas. One area will be in the Arckaringa Basin, in either EL 3325 or EL 3326, to confirm a suitable location to commence a trial Underground Coal Gasification field. It is expected that the program selection will be finished in the last quarter of 2007 and that drilling will commence in the first quarter of 2008.
  - In addition to this drilling program, Linc Energy will also be undertaking exploration drilling in PEL 120 with the aim of identifying a suitable location for a trial UCG field. Linc Energy has identified the location of PEL 120 as being suitable for a UCG field particularly as PEL 120 is located between Pt Augusta and Adelaide, is close to water, and is well located in relation to transmission lines and interconnectors.

### **2.3. Coal Seam Gas**

- Continuation of assessment of coal data in areas outside of the vicinity of the known deposits.
- Selection of sites core holes for CSG and clearance of sites for drilling (involving field work).

## **2.4. Petroleum Exploration**

- Reprocessing of seismic data over selected lines to enhance data quality is expected to be completed during the coming quarter.
- Continue working with the seismic contractor for the survey including further field trips. The survey will be carried out in March-April 2008.
- Continue with Geological and geophysical work including selection of potential drilling locations on prospects based on present knowledge but to be confirmed with the new detail seismic survey.
- SAPEX is investigating the use of innovative regional exploration techniques to cover wider areas of the Arckaringa Basin so that areas of potential interest can be highlighted and targeted with detailed surveys in the future.
- Work on securing a drilling rig for petroleum exploration drilling during 2008 is continuing.

Further information:

Andrew Andrejewskis  
Managing Director  
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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

SAPEX Limited

ABN

63 093 661 164

3 months ended ("year")

30 September 2007

### Consolidated statement of cash flows

| Cash flows related to operating activities                      | 1 July 2007 to<br>30 September 2007<br>\$A'000 | Year to date<br>(3 months)<br>\$A'000 |
|---|--|---------------------------------------|
| 1.1 Receipts from product sales and related debtors             | -  | -                                     |
| 1.2 Payments for  |  |                                       |
| (a) exploration and evaluation                                  | (205)  | (205)                                 |
| (b) development   | -  | -                                     |
| (c) production  | -  | -                                     |
| (d) administration  | (232)  | (232)                                 |
| 1.3 Dividends received  | -  | -                                     |
| 1.4 Interest and other items of a similar nature received       | 141  | 141                                   |
| 1.5 Interest and other costs of finance paid                    | -  | -                                     |
| 1.6 Income taxes paid   | -  | -                                     |
| 1.7 Other   | -  | -                                     |
| <b>Net Operating Cash Flows</b>                                 | <b>(296)</b>                                   | <b>(296)</b>                          |
| <b>Cash flows related to investing activities</b>               |  |                                       |
| 1.8 Payment for purchases of:                                   |  |                                       |
| (a)prospects  | -  | -                                     |
| (b)equity investments   | -  | -                                     |
| (c) other fixed assets  | (11)   | (11)                                  |
| 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)                        | -  | -                                     |
| <b>Net investing cash flows</b>                                 | <b>(11)</b>                                    | <b>(11)</b>                           |
| 1.13 Total operating and investing cash flows (carried forward) | <b>(307)</b>                                   | <b>(307)</b>                          |

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

|      |  |              |              |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (307)        | (307)        |
|      | <b>Cash flows related to financing activities</b>          |              |              |
| 1.14 | Proceeds from issues of shares, options, etc.              | -            | -            |
| 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 (Capital raising costs)                              | (92)         | (92)         |
|      | <b>Net financing cash flows</b>                            | (92)         | (92)         |
|      | <b>Net increase (decrease) in cash held</b>                | (399)        | (399)        |
| 1.20 | Cash at beginning of year to date                          | 9,176        | 9,176        |
| 1.21 | Exchange rate adjustments to item 1.20                     | -            | -            |
| 1.22 | <b>Cash at end of 3 months</b>                             | <b>8,777</b> | <b>8,777</b> |

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

|      |  | Three Months<br>\$A'000 |
|------|--|-------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 92                      |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10   | -                       |

1.25 Explanation necessary for an understanding of the transactions

Salary for managing director and directors' fees

**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

NA

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

NA

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

|                                 | Amount available<br>\$A'000 | Amount used<br>\$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities             | -                           | -                      |
| 3.2 Credit standby arrangements | -                           | -                      |

### Estimated cash outflows for next quarter

|                                | \$A'000    |
|--------------------------------|------------|
| 4.1 Exploration and evaluation | 560        |
| 4.2 Development                | -          |
| <b>Total</b>                   | <b>560</b> |

### 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.

|   | Three Months<br>\$A'000 | YTD<br>\$A'000 |
|---|-------------------------|----------------|
| 5.1 Cash on hand and at bank                          | 777                     | 777            |
| 5.2 Deposits at call                                  | 8,000                   | 8,000          |
| 5.3 Bank overdraft                                    | -                       | -              |
| 5.4 Other (provide details)                           | -                       | -              |
| <b>Total: cash at end of three months</b> (item 1.22) | <b>8,777</b>            | <b>8,777</b>   |

### Changes in interests in mining tenements

|     | Tenement reference  | Nature of interest (note (2))  | Interest at beginning of year | Interest at end of 3 months |
|-----|---|--|-------------------------------|-----------------------------|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | Changes to the mining tenement schedule for the quarter will be reported in the Quarterly Report and Tenement Schedule for the Quarter ended 30 September 2007 |                               |                             |
| 6.2 | Interests in mining tenements acquired or increased           |  |                               |                             |

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of 30 September 2007**


*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

|  | Total number | Number quoted | Issue price per security (see note 3) (cents)  | Amount paid up per security (see note 3) (cents) |
|--|--------------|---------------|--|--|
| 7.1 <b>Preference securities</b><br><i>(description)</i>   |              |               |  |  |
| 7.2 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions |              |               |  |  |
| 7.3 <b>+Ordinary securities</b>  | 90,511,500   | 67,461,500    |  |  |
| 7.4 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs              | 10,000       | 10,000        | 25 cents   | 25 cents   |
| 7.5 <b>+Convertible debt securities</b><br><i>(description)</i>  |              |               |  |  |
| 7.6 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted              |              |               |  |  |
| 7.7 <b>Options</b><br><i>(description and conversion factor)</i>   | 77,290,750   | 42,165,750    | <i>Exercise price \$0.25<br/>Conversion factor: 1<br/>Expiry date: 31 January 2012</i> |  |
| 7.8 Issued during quarter  |              |               |  |  |
| 7.9 Exercised during quarter   | 10,000       | 10,000        |  |  |
| 7.10 Expired during quarter  |              |               |  |  |
| 7.11 <b>Debentures</b><br><i>(totals only)</i>   |              |               |  |  |
| 7.12 <b>Unsecured notes</b> <i>(totals only)</i>   |              |               |  |  |

+ See chapter 19 for defined terms.

## 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 does give a true and fair view of the matters disclosed.

Sign here:   
(Company secretary)

Date: 30 October 2007

Print name: Andrew Bursill

### 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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+ See chapter 19 for defined terms.