



Financial Report
SAPEX LIMITED

ABN 63 093 661 164

For the half-year ended 31 December 2007

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Corporate directory

Directors	R M Wilson - Chairman A J Andrejewskis - Managing Director D W King - Non Executive Director P J D Elliott - Non Executive Director P A Young - Non Executive Director
Company secretary	Mr A W Bursill
Registered office	Suite 206, 1 Katherine Street CHATSWOOD, NSW 2067 Telephone (02) 9419 2966 Fax (02) 9419 2944
Place of Business	2 Grenfell Street Kent Town SA 5067
Share registry	Computershare Investor Services Pty Limited Level 5, 115 Grenfell Street Adelaide SA 5000
ASX code	SXP
Listed on the ASX	25 May 2007
Auditor	PKF Level 10, 1 Margaret Street Sydney, NSW 2000
Solicitor	Addisons Lawyers Level 12, 60 Carrington Street Sydney NSW 2001
Banker	National Australia Bank Ground level, 22-28 King William Street Adelaide South Australia 5000
Internet address	www.sapex.com.au

Directors' report

Your directors present their report on SAPEX Limited ("SAPEX") for the half-year ended 31 December 2007.

Directors

The following persons were directors of SAPEX during the whole of the financial period and up to the date of this report, unless otherwise noted:

R M Wilson - Chairman
A J Andrejewskis - Managing Director
D W King - Non Executive Director
P J D Elliott - Non Executive Director
P A Young - Non Executive Director

Principal activities

During the period the principal continuing activity of SAPEX consisted of continued advancement towards the commencement of exploration for petroleum and coal. There have been no significant changes in the nature of the activities of SAPEX during the period.

Dividends

No dividends were paid or declared during the half-year ended 31 December 2007 (2006: nil).

Review of operations

Introduction

SAPEX is an energy exploration company engaged in exploring for oil, gas coal-seam-gas (CSG) and coal based products such as gas and liquids from underground coal gasification (UCG).

The company's areas of interest are the Arckaringa Basin in central South Australia and in the St Vincent Basin immediately north of Adelaide.

Petroleum Licences

The company holds a 100% interest in seven Petroleum Exploration Licences (PELs) in the Arckaringa Basin totalling an area of some 65,000 sq km.

SAPEX also holds a 100% interest in one PEL in the St Vincent Basin with an area of 9,600 sq km.

The PELs were granted on 2 October 2006 for an initial term of 5 years, with further 5 year renewal options.

Mineral Exploration Licences

SAPEX has a 100% interest in two Explorations Licences (ELs) within the PEL areas in the Arckaringa Basin covering coal deposits. The ELs were granted on 13 April 2005 for an initial term of three years. The ELs will be renewed for a further term.

Director's Report (continued)

OPERATIONAL ACTIVITIES

Coal

- Coal resource assessment was completed by the consultants group, Geos Mining, for ELs 3325 and 3326 in accordance with JORC Principles. The assessment resulted that the combined coal in these ELs is 1.6 Billion tonnes of inferred resource with an additional target of 3-4 Billion tonnes.
- In July, SAPEX signed a Memorandum of Understanding (MOU) with Linc Energy to pursue underground coal gasification (UCG) projects for energy and potentially clean diesel production. The project areas will be selected from ELs 3325, 3326 and PEL 120.

Work program discussions commenced in the latter part of the period under review

Coal Seam Gas

- The directors are assessing proposals received from established CSG developers/producers with respect to a potential farmin for CSG interests in the Arckaringa Basin PELs. At the end of the period the assessment process was continuing and an announcement is expected to be made early in the next quarter.
- After completing an internal report on available coal data, the company applied to the SA Government for funding assistance for CSG drilling under its PACE scheme. A decision on the application is expected during the next period.
- During the period, more than 10,000 metres of borehole geophysical logs from boreholes in the Arckaringa were digitised from the original paper records. The data will be utilised in better understanding the coal geology in the area and is applicable to both CSG and UCG.

Petroleum Exploration

- A seismic program was designed to acquire both detailed data over identified prospects and for regional data to extend the seismic coverage. Work Area Clearance process was completed. The survey is programmed to be conducted during March/April of 2008.
- Re processing of selected lines from surveys undertaken during the 1980's was completed. This work will assist in designing the recording parameters of the survey as mentioned above.
- Draft proposals for several sites to drill exploration wells were commenced. Final selection of the sites for the drilling program will be made after the seismic survey is completed and the data is processed and interpreted.

General

- The Statements of Environmental Objectives (SEOs) for geophysical and drilling operations in the Arckaringa Basin were completed and were gazetted by the SA Government in November 2007. This was a significant in that the SEOs are a necessary precursor to commencing any field activities, subject to normal project approvals.
- A similar process has commenced for PEL 120 (St Vincent Basin).
- A hydrogeological study of the Arckaringa Basin has commenced and will continue into the next period. The objective is to have a better understanding of the ground water and aquifer system in the basin which will be important for the future operations for oil, gas, CSG and UCG.

Director's Report (continued)

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the Half-Year ended 31 December 2007.

Matters subsequent to the end of the financial year

On 13 February 2008, SAPEX announced that it has reached an agreement with Eastern Star Gas (ESG) whereby ESG will earn interests in coal seam gas (CSG) in three of SAPEX's Arckaringa Basin licences in South Australia.

No matter or circumstance has arisen since 31 December 2007 that has significantly affected, or may significantly affect:

- (a) SAPEX's operations in future financial years, or
- (b) The results of those operations in future financial years, or
- (c) SAPEX's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of SAPEX constituted from time to time that were not finalised at the date of this report included:

- (a) The strategic program to undertake work in parallel on oil and gas, Coal Seam Gas (CSG) and coal including value-adding commercialisation options.
- (b) The commencement of exploration on coal, oil, gas and CSG.

Further information on likely developments in the operations of SAPEX and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to SAPEX.

Environmental regulation

SAPEX holds exploration licences which are subject to the Petroleum Act 2000 and the Mining Act 1971 and their associated environmental regulations. Apart from the above, there are no significant environmental regulations applying to the Company.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of directors.



Roger Wilson
Chairman

14 February 2008



Andrew Andrejewskis
Managing Director

14 February 2008

Auditor's independence declaration

As lead auditor for the review of Sapex Limited for the half year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sapex Limited during the half year.

**PKF**

Bruce Gordon
Partner

Sydney
14 February 2008

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Chartered Accountants
& Business Advisers

Independent Auditor's review report

To the members of Sapex Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sapex Limited, which comprises the balance sheet as at 31 December 2007, 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.

Directors' Responsibility for the Half-Year Financial Report

The directors of Sapex Limited 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 an Interim Financial Report 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 Sapex Limited's financial position as at 31 December 2007 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 Sapex Limited, 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*.

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Independent Auditor's review report (continued)*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 Sapex Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of Sapex Limited's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and *Corporations Regulations 2001*.

**PKF****Bruce Gordon**
PartnerSydney
14 February 2008

Income statement

For the half-year ended 31 December 2007

	Note	1 July 2007 to 31 Dec 2007	1 July 2006 to 31 Dec 2006
Revenue from continuing operations			
Interest income		300,125	7,345
Total revenue		300,125	7,345
Depreciation		(2,471)	-
Employee benefit expense		(227,008)	-
Professional fees		(70,576)	(195,684)
Other operating expenses		(152,459)	(30,140)
Total expenses		(452,513)	(225,824)
Loss before income tax expense		(152,389)	(218,479)
Income tax expense		-	-
Loss for the half-year after tax		(152,389)	(218,479)
Loss attributable to members of SAPEX Limited		(152,389)	(218,479)
Basic EPS (cents per share)		(0.17)	(0.28)
Diluted EPS (cents per share)		(0.17)	(0.28)

The above income statement should be read in conjunction with the accompanying notes.

Balance sheet

As at 31 December 2007

	Note	31 Dec 2007 \$	30 June 2007 \$
Current assets			
Cash and cash equivalents		8,623,297	9,176,706
Trade and other receivables		150,137	154,194
Other current assets		-	-
Total current assets		<u>8,773,434</u>	<u>9,330,900</u>
Non-current assets			
Property, plant and equipment		25,774	17,008
Exploration and evaluation expenditure		1,073,445	734,504
Total non-current assets		<u>1,099,219</u>	<u>751,512</u>
Total assets		<u>9,872,653</u>	<u>10,082,412</u>
Current liabilities			
Trade and other payables		127,739	191,359
Total current liabilities		<u>127,739</u>	<u>191,359</u>
Total liabilities		<u>127,739</u>	<u>191,359</u>
Net assets		<u>9,744,914</u>	<u>9,891,053</u>
Equity			
Contributed equity		10,143,605	10,137,355
Share based payment reserve		484,500	484,500
Accumulated losses		(883,191)	(730,802)
Total equity		<u>9,744,914</u>	<u>9,891,053</u>

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 2007 (1 July 2007 to 31 December 2007)

	Ordinary shares	Share based payment reserves	Accumulated (Losses)	Total
	\$	\$	\$	\$
Balance at 30 June 2007	10,137,355	484,500	(730,802)	9,891,053
Loss for the year	-	-	(152,389)	(152,389)
Total recognised income and expense for the year	-	-	(152,389)	(152,389)
Issue of shares	3,750	-	-	3,750
Capital raising costs – accrual reversal	2,500	-	-	2,500
Balance at 31 December 2007	10,143,605	484,500	(883,191)	9,744,914

For the half-year ended 31 December 2006 (1 July 2006 to 31 December 2006)

	Ordinary Shares	Share Based Payment Reserves	Accumulated (Losses)	Total
	\$	\$	\$	\$
Balance at 30 June 2006	-	-	(152,730)	(152,730)
Loss for the half-year	-	-	(128,542)	(128,542)
Total recognised income and expense for the half- year	-	-	(128,542)	(128,542)
Share based payments	-	30,000	-	30,000
Issue of shares	1,700,000	-	-	1,700,000
Capital raising costs	(538,128)	-	-	(538,128)
Balance at 31 December 2006	1,161,872	30,000	(281,272)	910,600

Cash flow statement

For the half-year ended 31 December 2007

	Note	31 Dec 2007 \$	31 Dec 2006 \$
Cash flows from operating activities			
Payments to suppliers and employees		(464,574)	(235,264)
Interest paid		(104)	-
Taxes / (paid) received		22,007	44,497
Net cash (used in) operating activities		(442,671)	(190,767)
Cash flows from investing activities			
Payment for property, plant and equipment		(11,237)	-
Payment for exploration expenditure and granting of tenements		(297,609)	(675,305)
Interest received		288,328	7,345
Net cash (used in) investing activities		(20,518)	(667,960)
Cash flows from financing activities			
Proceeds from the issue of shares		3,750	-
Share issue transaction costs		(93,970)	(326,872)
Net cash provided by financing activities		(90,220)	(326,872)
Net increase / (decrease) in cash held		(553,409)	(1,185,599)
Cash at beginning of the half-year		9,176,706	1,571,920
Cash and cash equivalents at end of the half-year		8,623,297	386,321

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to financial statements

For the half-year ended 31 December 2007

Note 1: Summary of significant accounting policies

The financial report covers SAPEX Limited, a public listed company, incorporated and domiciled in Australia.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and *the Corporation Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by SAPEX Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporation Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest and are carried forward in the balance sheet where:

- (i) rights to tenure of the area of interest are current; and
- (ii) one of the following conditions is met:
 - such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sales; or
 - exploration and/or evaluation activities in the area of interest have not, at balance sheet date, yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or relation to, the areas are continuing.

Expenditure relating to pre-exploration activities is written off to the income statement during the period in which the expenditure is incurred.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated expenditure on areas that have been abandoned, or are considered to be of no value, are written off in the year in which such a decision is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Note 2: Segment information

SAPEX operates in one geographical area, Australia, within one business segment, exploration for mineral resources.

Note 3: Results for the period

The Company incurred a loss of \$152,389 for the half year ended 31 December 2007. (2006 : loss of \$218,479)
The Company's cash outflow was \$553,409 (2006: cash outflow of \$1,185,599)

Note 4: Dividends

There were no dividends paid for the half- year ended 31 December 2007.

Note 5: Contributed equity

(a) Share capital	2007 Shares	30 June 2007 Shares	31 December 2007 \$	30 June 2007 \$
Fully paid ordinary shares	90,516,500	90,501,500	10,143,605	10,137,355

Note 6: Contingencies

On 3 October 2006 SAPEX entered into three deeds pursuant to Section 31 of the Native Title Act 1993, between the Honourable Paul Holloway Minister for Mineral Resources Development and three native title parties. Each deed provides for a compensation payment on production from the tenement of 1% of the value at the well head of Petroleum produced from a tenement within each respective claim area.

There were no other contingent liabilities at 31 December 2007 (2006: nil).

Note 7: Commitments

Exploration Expenditure Commitments

SAPEX is required to meet minimum committed expenditure requirements to maintain current rights of tenure to petroleum and mining licences. These obligations may be subject to re-negotiation, may be farmed out or may be relinquished and have not been provided for in the balance sheet. In addition, the Company has obligations in regard to Native Title. A summary of aggregate commitments is as follows:-

	31 Dec 2007 \$	30 June 2007 \$
Within 1 year	3,221,223	1,238,000
1 year or longer, but not longer than 5 years	3,347,120	5,636,000
Longer than 5 years	88,500	118,000
Total	<u>6,656,843</u>	<u>6,992,000</u>

Note 8: Events occurring after the balance sheet date

On 13 February 2008, SAPEX announced that it has reached an agreement with Eastern Star Gas (ESG) whereby ESG will earn interests in coal seam gas (CSG) in three of SAPEX's Arckaringa Basin licences in South Australia.

No other matter or circumstance has arisen since 31 December 2007 that has significantly affected, or may significantly affect:

- (a) SAPEX operations in future financial years, or
- (b) The results of those operations in future financial years, or
- (c) SAPEX 's state of affairs in future financial years.

Directors' declaration

In the directors' opinion:

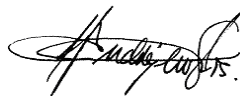
- (a) The financial statements and notes, as set out on pages 10 to 16 are in accordance with the Corporations Act 2001, including:
- i. Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) There are reasonable grounds to believe that SAPEX Limited will be able to pay its debts as and when they become due and payable.

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



Roger Wilson
Chairman

14 February 2008



Andrew Andrejewskis
Managing Director

14 February 2008