

Quarterly Activities Report For the Period ending 30 June 2008

Summary

MERGER WITH LINC ENERGY

As previously advised to the ASX in June 2008, SAPEX proposes to merge with Linc Energy Ltd (:“Linc Energy”) subject to approvals by shareholders, option holders and various regulatory authorities including the Supreme Court of South Australia.

Through the merger Linc Energy will acquire all of SAPEX’s shares for 72 cents per share and options will be cancelled for 50 cents per option. SAPEX shareholders and optionholders will have the choice of taking the consideration as either: all cash, all Linc shares or 50%cash and 50% Linc Energy shares.

The Directors of SAPEX are recommending the merger terms subject to the necessary approvals and subject to no superior proposal.

The Scheme documents for Shareholders and Optionholders are currently being prepared. The expected completion date is the second week of October 2008.

OPERATIONS

During the three months ended 30 June 2008, SAPEX Limited has progressed its exploration activities as follows:

- Terrex Seismic commenced the 2008 Boorthanna 2D Seismic Survey in PELs 117 and 121 on 9 May 2008 and completed the detail portion of 236.16 km on 1 June 2008.
- Dayboro Geophysical has commenced processing of the newly acquired Boorthanna Seismic data and reprocessing of older vintage data.
- The Exploration Work Programme for EL3325 was approved by PIRSA on 19 June 2008. Drilling is expected to commence in July 2008.
- Work Area Clearances (WACs) were completed for drilling activities in EL3325, EL3326, PELs 117, 121 and 122.

1. Work Completed

1.1. Coal Seam Gas

- Stage 1 of ESG's farmin commitments consists of the drilling of three cored slim-holes in each of PELs 117, 121 and 122. Preliminary well proposals have been prepared and are awaiting submission to PIRSA, pending details of the drilling rig.
- ESG continued efforts to source a suitable drilling rig with the intention to commence drilling during calendar 2008.
- The WACs for the drilling of the three boreholes were completed in two stages: PEL 117 in May 2008, and PELs 121 and 122 in June 2008.

1.2. Coal

- Linc Energy developed a drilling program to ascertain the suitability of the coal for UCG and also to define reserves of coal in accordance with JORC principles. The program will be conducted within the area defined by EL 3325 to be followed in EL 3326 at a date yet to be determined. An Exploration Work Approval (EWA) application was submitted to PIRSA on 1 May 2008. The proposed programme for EL3325 was approved by PIRSA on 19 June 2008.
- Work Area Clearances were completed for EL3325 in May 2008 and for EL3326 in June 2008.
- Drilling is to be undertaken by Underdale Drilling of Adelaide with whom Linc has finalised contracts. Drilling in EL3325 is expected to commence in July 2008.
- A draft Co-operative Exploration Agreement between SAPEX Ltd, GulfX Ltd and Torrens Energy Ltd was made to share the cost of gas content testing (by GeoGas) on coal cores recovered by GulfX from the St Vincent Basin Coalfields. The first phase of the drilling programme in the Clinton area commenced in June 2008. SAPEX proposed the cost sharing on a 50:50, SAPEX : GulfX, basis for three boreholes (one each at Clinton, Beaufort and Whitwarta).
- RPSEcos completed EIR and SEO for PEL120 addressing PIRSA comments. Final documents incorporating stakeholder submissions were received by SAPEX. (Note: SEO was gazetted by the South Australian Government on 10 July 2008).

1.3. Petroleum Exploration

- Terrex Seismic commenced the 2008 Boorthanna 2D Seismic Survey in PELs 117, 121, 122 and 123 on 9 May 2008. The survey comprises of 428km of 2D data recording, of which approximately half was to detail prospects and leads over two areas and the other half will be regional in an endeavour to seek a southward extension of the Boorthanna Trough.

- A total of 236.16 km of detail seismic over the identified prospects and leads were acquired in PELs 117 and 121 as of 1 June 2008.
- Recording of the remaining 247.84 km of regional seismic lines (in PELs 122 and 123) will commence July 2008 and is expected to be completed late August 2008.

1.4. General

- RPSEcos completed EIR and SEO for PEL120 addressing PIRSA comments. Final documents incorporating stakeholder submissions were received by SAPEX.
- Coffey Environments gave a presentation of their findings from a groundwater review of the Arckaringa Basin, with a view to determine the relationship between the Arckaringa and Great Artesian Basins. Further work is being contemplated.
- SAPEX was granted EL4147 (Inkerman Area) EL4148 (Walloway Area) commencing on 12 May 2008, for a one year term.

2. Work Planned

2.1. Coal

- The drilling program for UCG purposes, by Linc Energy, is scheduled to commence in July 2008.

2.2. CSG

- The drilling programme for CSG, by Eastern Star is expected to take place during calendar 2008.

2.3. Petroleum Exploration.

- Dayboro Geophysical has commenced processing of the newly acquired Boorthanna Seismic data and reprocessing of older vintage data. Final processed data is expected in August 2008.
- Seismic interpretation of the newly acquired and reprocessed data is expected to commence in August 2008, to map prospects and leads. It is expected that prospects will be identified for drilling in the 4th quarter 2008.

2.4. General

- Gazettal of the SEO for PEL 120 on 10 July 2008.
- Hydrogeological and internal geological studies will be continuing.

**SAPEX Limited
Tenement Listing (Quarterly Basis)**

Licence	Area (sq km)	SAPEX Interest March 2008	SAPEX Interest June 2008	Change over Preceding Quarter
PEL 117	9515	100	100	Nil
PEL 118	7400	100	100	Nil
PEL 119	9751	100	100	Nil
PEL120	9601	100	100	Nil
PEL 121	9806	100	100	Nil
PEL 122	8460	100	100	Nil
PEL 123	9646	100	100	Nil
PEL 124	9848	100	100	Nil
EL 3325	185	100	100	Nil
EL 3326	304	100	100	Nil
EL 4147	288	Nil	100	Nil
EL 4148	173	Nil	100	Nil

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 June 2008

Consolidated statement of cash flows

Cash flows related to operating activities	1 April 2008 to 30 June 2008 \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(1,682)	(2,119)
(b) development	-	-
(c) production	-	-
(d) administration	(405)	(1,050)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	188	629
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(1,899)	(2,540)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(13)	(27)
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	(13)	(27)
1.13 Total operating and investing cash flows (carried forward)	(1,912)	(2,567)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,912)	(2,567)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	21	22
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)	(3)	(95)
	Net financing cash flows	18	(73)
	Net increase (decrease) in cash held	(1,894)	(2,640)
1.20	Cash at beginning of year to date	8,430	9,176
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of 3 months	6,536	6,536

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 \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	91
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 \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,620
4.2 Development	-
Total	1,620

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 \$A'000	YTD \$A'000
5.1 Cash on hand and at bank	1,536	1,536
5.2 Deposits at call	5,000	5,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of three months (item 1.22)	6,536	6,536

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 June 2008	
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 June 2008


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 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	90,559,000	67,509,000		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	42,500	42,500	\$0.25 – exercise of options	\$0.25
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	77,243,250	42,118,250	<i>Exercise price \$0.25 Conversion factor: 1 Expiry date: 31 January 2012</i>	
7.8 Issued during quarter				
7.9 Exercised during quarter	42,500	42,500		
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <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 /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: 
(Company secretary)

Date: 25 July 2008

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.