



PEL 117, 118, 119, 121, 122, 123 & 124

Arckaringa Basin

South Australia

Year 2

Combined Annual Report

For the Period

3rd October 2007 to 2nd October 2008

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1. Introduction

Petroleum Exploration Licenses (PEL's) 117, 118, 119, 121, 122, 123 & 124 were all issued on the 3rd October 2006 for a term of five years. The Licenses are located in the Arckaringa Basin, South Australia. This report details the work conducted during License Year 2 (3rd October 2007 – 2nd October 2008 inclusive), in accordance with Regulation 33 of the Petroleum Act 2000.

2. Permit Summaries

PEL's 117, 118, 119, 121, 122, 123 & 124 were awarded to SAPEX which currently maintains a 100% interest in all Licenses.

The original work commitments associated with the awarding of PEL's 117, 118, 119, 121, 122, 123 & 124 are indicated in Table 1.

Table 1: PEL Original Work Commitments by License year

PEL 117 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 118 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Geological and Geophysical Studies
Three	Drill one well
Four	Geological and Geophysical Studies
Five	Geological and Geophysical Studies

PEL 119 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Geological and Geophysical Studies
Three	Drill one well
Four	Geological and Geophysical Studies
Five	Geological and Geophysical Studies

PEL 121 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 122 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 123 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 124 original work commitments

Year of Term of License	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well
Three	Drill one well
Four	Geological and Geophysical Studies
Five	Geological and Geophysical Studies

- As of 13th of February 2008, SAPEX has farmed out coal seam gas (CSG) interest to Eastern Star Gas (ESG). The farmout involves a two-stage earning process. Stage 1 includes the drilling and testing of three coreholes, one in each of PEL 117, PEL 121 and PEL 122 to earn a 25% interest in the coals seam gas rights of the PELs.

Stage 2 of the farm-in will involve the drilling and testing of a five-well production pilot, for which ESG will earn a further 25% interest and operatorship in coal seam gas rights of the exploration licenses. Performance of the stage 2 work program will be dependent upon the outcome of the stage 1 program.

- A Memorandum of Understanding (MOU) signed in July 2007 with Linc Energy for the investigation of the utilisation of coal for Underground Coal Gasification (UCG). Linc Energy will identify suitable locations within SAPEX's vast South Australian license areas to establish UCG fields for the production of low greenhouse gas emissions power, and environmentally friendly Coal to Liquids (CTL) diesel.
- On 12 June 2008 SAPEX signed a merger agreement with Linc Energy under which Linc Energy proposed to acquire all of SAPEX's shares, effected by schemes of arrangement which were implemented on 15 October 2008. As a result of the merger some of the work commitments for Year 2 have been deferred to Year 3.

License Year 2 concluded on the 2nd of October 2008. The following table displays the minimum work program and the actual work completed up and to the end of license year 2.

Table 2: PEL minimum work program and the actual work completed in license year 2.

Petroleum Exploration License	Minimum Work Program	Actual Work Carried Out
PEL 117	Seismic Acquisition, Drill One Well	Geological and Geophysical Studies, Seismic Data Acquisition
PEL 118	Geological and Geophysical Studies	Geological and Geophysical Studies
PEL 119	Geological and Geophysical Studies	Geological and Geophysical Studies
PEL 121	Seismic Acquisition, Drill One Well	Geological and Geophysical Studies, Seismic Data Acquisition
PEL 122	Seismic Acquisition, Drill One Well	Geological and Geophysical Studies, Seismic Data Acquisition
PEL 123	Seismic Acquisition, Drill One Well	Geological and Geophysical Studies, Seismic Data Acquisition
PEL 124	Drill One Well	Geological and Geophysical Studies

3. Regulated Activities

Regulation 33 (2) (a):

Regulated activities conducted

- Environmental Impact Reports (EIR) and Statement of Environmental Objectives (SEO) for Geophysical Operations and Exploration Drilling Activities were officially gazetted on the 8th November 2007.
- Correspondence and preliminary discussions with overlapping mineral EL tenement holders for on ground co-operation agreements regarding future exploration activities over areas of mutual interest. Ongoing feedback received with some verbal agreements being negotiated.

Seismic Data Acquisition

The 2008 Boorthanna 2D Seismic Survey was operated by Sapex Limited and conducted in PELs 117,121, 123 and 123 in the Arckaringa Basin in South Australia by Terrex Seismic Crew # 403. The program was located in three separate areas, all in northern South Australia. The first, the northern area, was in PEL 117, 20 km southwest of Oodnadatta. The second, the central area, was in PEL 121 midway between Oodnadatta and William Creek. The third or southern area, was located on roads and tracks between Coober Pedy and William Creek in PEL 122 and 123

A total of 466.05 km of seismic data was recorded; 74.04 km in the northern area at 20m group interval, 162.12 km in the central area at 20m group interval and 229.89 km in the southern area at 30m group interval. Recording operations began on May 10th, 2008 and were completed on August 9th, 2008.

Seismic Data Processing and Reprocessing

Survey/project name: 2008 Boorthanna 2D Seismic Survey

A total of 466.05 km of seismic data was recorded in PELs 117,121, 123 and 123 in the Arckaringa Basin in South Australia.

Processing contractor: Dayboro Geophysical Pty Ltd.

Dayboro Geophysical Pty Ltd was contracted to process all of the 2008 Boorthanna 2D Seismic Data. In addition 556km of selected 1982, 1984 and 1985 vintage seismic lines were reprocessed with the same processing parameters as the 2008 Boorthanna 2D data. Details of the processing parameters are presented in a separate report.

4. Compliance Issues

Regulation 33 (2) (b) (c):

Compliance with the Act, Regulations, License conditions and relevant statement of environmental objectives, Actions to rectify non compliance

License Non-Compliance

Table 3: List of non-compliance for the current reporting year

	No.	Stated Commitment	Reason for Non-Compliance	Rectification of Non-Compliance
PEL 117	Ex.1	Drill One Well	<ul style="list-style-type: none"> Seismic acquisition was delayed (completed in August 2008) Seismic data processing was subsequently delayed Interpretation of new and reprocessed data was completed in November 2008 The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> A variation will be applied for, with a proposal to drill the one (1) well for Year 2 in Year 3. Subject to PIRSA approval. This will result in a work program of two(2) wells in Year 3
PEL 121	Ex.1	Drill One Well	<ul style="list-style-type: none"> Seismic acquisition was delayed (completed in August 2008) Seismic data processing was subsequently delayed Interpretation of new and reprocessed data was completed in November 2008 The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> A variation will be applied for, with a proposal to drill the one (1) well for Year 2 in Year 3. Subject to PIRSA approval. This will result in a work program of two(2) wells in Year 3

PEL 122	Ex.1	Drill One Well	<ul style="list-style-type: none"> • Seismic acquisition was delayed (completed in August 2008) • Seismic data processing was subsequently delayed • Interpretation of new and reprocessed data was completed in November 2008 • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • A variation will be applied for, with a proposal to drill the one (1) well for Year 2 in Year 3. Subject to PIRSA approval. • This will result in a work program of one (1) well in Year 3 with the original Year 3 well proposed for Year 4.
PEL 123	Ex.1	Drill One Well	<ul style="list-style-type: none"> • Seismic acquisition was delayed (completed in August 2008) • Seismic data processing was subsequently delayed • Interpretation of new and reprocessed data was completed in November 2008 • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • A variation will be applied for, with a proposal to drill the one (1) well for Year 2 in Year 3. Subject to PIRSA approval. • This will result in a work program of one (1) well in Year 3 and the original Year 3 well proposed for Year 4.
PEL 124	Ex.1	Drill One Well	<ul style="list-style-type: none"> • Regional Geological and Geophysical studies are ongoing • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • A variation will be applied for, with a proposal to drill the one (1) well for Year 2 in Year 3. Subject to PIRSA approval. • This will result in a work program of one (1) well in Year 3 and the original Year 3 well proposed for Year 4.

Compliance with Statement of Environmental Objectives

In July 2007 a new Statement of Environmental Objectives (SEO) for Geophysical Operations in the Arckaringa Basin, South Australia was prepared in accordance with section 99 of the *South Australian Petroleum Act 2000*, by RPS Ecos.

SEO for Geophysical Operations

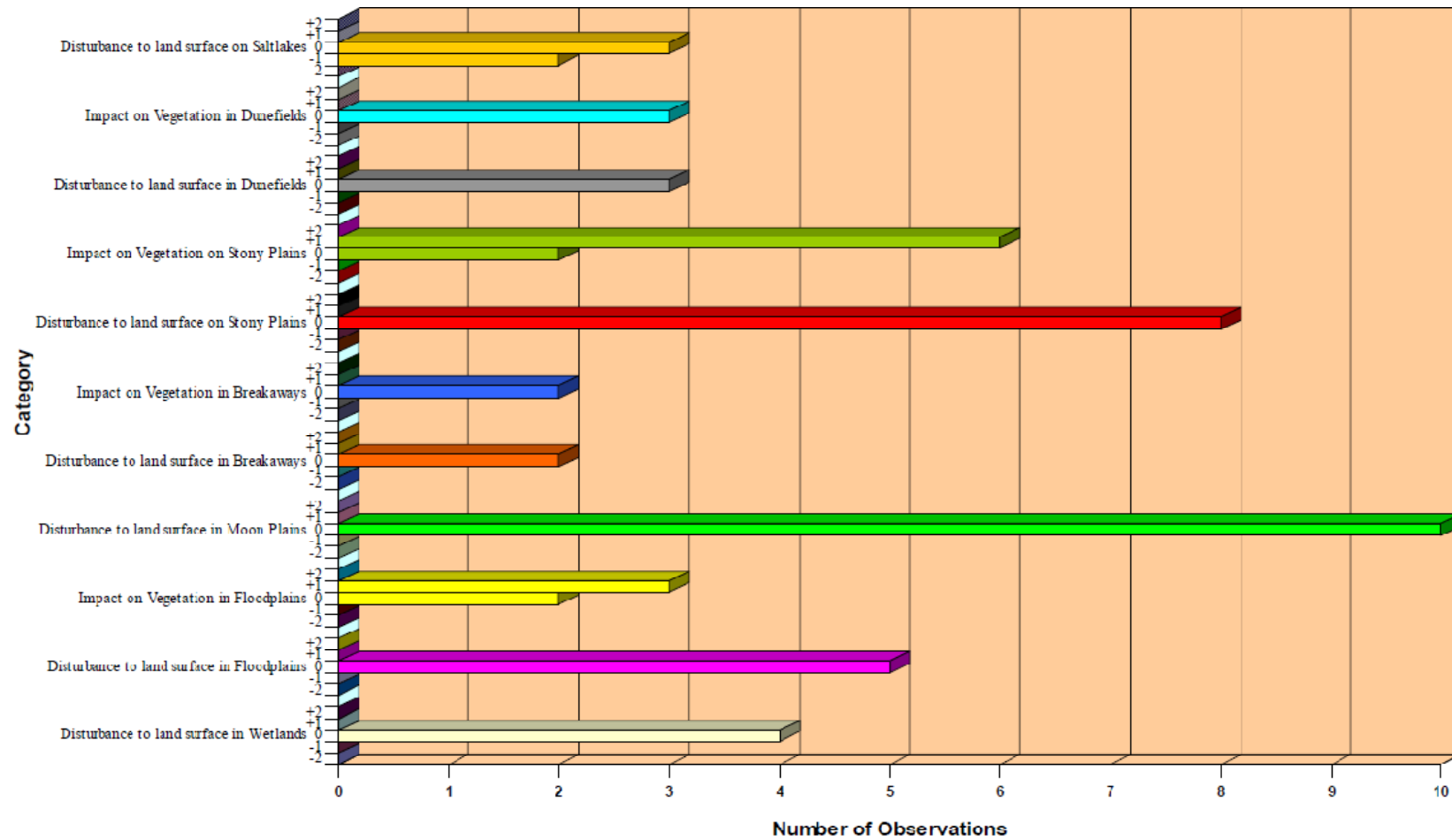
1. Avoid disturbance to sites of cultural and heritage significance – *achieved*.
2. Minimise disturbance to native vegetation and native fauna – *achieved*.
3. Avoid the introduction or spread of exotic species and implement control measures as necessary – *achieved*.
4. Minimise disturbance and contamination to soil resources – *achieved*.
5. Minimise disturbance to drainage patterns and avoid contamination of surface waters and shallow groundwater resources – *achieved*.
6. Minimise risks to the safety of the public, employees and other third parties – *achieved*.
7. Minimise disturbance to livestock, pastoral infrastructure and landholders – *achieved*.
8. Minimise the visual impact of operations – *achieved*.
9. Minimise the impact on the environment of waste handling and disposal – *achieved*.
10. Remediate and rehabilitate operational areas to agreed standards. – *achieved*.

Compliance to the above objectives was assessed by undertaking an objective evaluation according to a specific set of measuring criteria. Such a method is Goal Attainment Scaling (GAS). The scores are out of 5 numbers ranging from -2 to +2. A score of 0 is the expected result at the time of operations. Scores of +1 and +2 are better than expected and scores of -1 and -2 are worse than expected. A score of -2 generally means that some restoration is required. The GAS audit of the 2D seismic survey is presented below.

Permanent markers denoting Environmental Monitoring Points (EMP's) were established in places that typify the general terrain of the area and photographs were taken before and after operations then at regular intervals in the future to assess the level of rehabilitation. It is expected that GAS scores will increase over time as the operational area rehabilitates.

An Environmental Report for the Survey was prepared by SAPEX's field representative. The report includes a discussion of the results of the GAS audit and the environmental setting of the EMP's.

Fig # 5: GAS Audit of Sapex Limited's 2008 Boorthanna 2D Seismic Survey, PELs 117, 121, 122, 123, Arckaringa Basin



Regulation 33 (2) (d):

Management System Audits

No Management System Audits were conducted.

Regulation 33 (2) (e):

Reports generated during the License year

- **SAPEX 2008 Boorthanna 2D Seismic Survey – Environmental Report prepared by Bruce Beer**
- **SAPEX Ltd Field Operations Report for the 2008 Boorthanna 2D Seismic Survey PEL 117, 121, 122, 123 Arckaringa Basin, South Australia, Conducted by Terrex Seismic Pty Ltd. Crew #403 from May 9th to August 9th 2008. Prepared by Bruce Beer.**
- **Coffey Environments (December 2007). Desktop Review of Evidence for Interconnection of the Arckaringa Basin with the Great Artesian Basin – Report and Recommendations.**
- **Coffey Environments (July 2008). Desktop Review of Potential Groundwater Interconnectivity between the Arckaringa and Great Artesian Basins**
- **Archimedes Consulting Pty Ltd (October 2008). Interpretation of Magnetic and Gravity Data, Arckaringa Basin, South Australia.**

Regulation 33 (2) (f):

Incidents reported to the Minister under the Act

Table 4: List of incidents during current license reporting year

Date of Incident	Activity	Incident Description	Type of Loss	Action to Rectify & Effectiveness of Action	Date Reported / Reported to Whom
21 May 2008	2008 Boorthanna 2D Seismic Survey – Dynamic Satellite Surveyors	The driver came to a bend in the road when he was blinded by the sun, he over-compensated by turning too sharp, then braking at the same time, causing vehicle to slide into the table drain and roll.	Loss of vehicle. Driver had slight bruising around his waist.	Tool Box discussion. Training for all Terrex employees. Incident report read and photos displayed. Aspects of driver fatigue, caution while driving into the sun, and potential for vehicle roll over discussed.	22 May 2008 Terrex Incident Report DSS Accident Report

Regulation 33 (2) (g):

Foreseeable threats that present a hazard to facilities or activities

- No facilities in license areas.
- No threats to activities which are not already covered in the relevant EIRs for exploration drilling.

Regulation 33 (2) (h):

Operations proposed for Year 3

Table 5: Petroleum Exploration License planned work program – License Year 3.

Petroleum Exploration License	Planned Work Program (Year 3)
PEL 117	Drill two(2) wells
PEL 118	Drill one(1) well
PEL 119	Drill one (1) well
PEL 121	Drill two(2) wells
PEL 122	Drill one(1) well
PEL 123	Drill one(1) well
PEL 124	Drill one(1) well

4. Expenditure Statement

Regulation 33 (3):

An annual report must be accompanied by a statement of expenditure on regulated activities conducted under the License for the relevant license year, showing expenditure under each of the following headings:

- (a) drilling activities;*
- (b) seismic activities;*
- (c) technical evaluation and analysis;*
- (d) other surveys;*
- (e) facility construction and modification;*
- (f) operating and administration expenses.*

Commercial in Confidence.