



# Drillsearch Energy Limited

## ASX RELEASE

### Quarterly Report Period Ended 31<sup>st</sup> March 2008

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As part of the Company's announced Strategic Plan and stated objective to build a successful and sustainable mid tier oil and gas exploration and production company, Drillsearch announced subsequent to the end of the quarter on 18<sup>th</sup> April 2008 that it had agreed a merger with Great Artesian Oil and Gas Ltd. (ASX: GOG).

The merger will create a significant mid tier oil and gas exploration and production company with considerable growth potential, strong management and the financial capacity to achieve its goals.

The merged companies will have:

- 1) A market capitalisation of approximately \$ 75 million,\* firmly placing it among the leading smaller producers;
- 2) A net interest in more than 165,000 bbls oil production in calendar year 2008;
- 3) 5 discoveries awaiting commercialisation;
- 4) Exploration acreage in seven highly prospective basins, covering over 55,000 square kilometres;
- 5) The exploration and production acreage of the two companies is highly complementary and the combined group will have a portfolio that covers most major basins in Australia and PNG;
- 6) No debt, with over \$ 8 Million in cash; and
- 7) An experienced board and management with strong expertise in the areas of oil and gas and resources.

\*Assumes a merged company share price of \$0.046 per share (equivalent to the Drillsearch 60 Day VWAP to 16, April 2008) and 1,620million shares on issue in the merged entity, which includes Drillsearch's placement of a further 325,942,850 shares announced on 17, April 2008, and excludes 47,910,488 shares that will be held by Great Artesian in Drillsearch.

The merger will be implemented by way of a Scheme of Arrangement with Great Artesian shareholders to receive 3 Drillsearch shares for each 1 Great Artesian share they own.

The appointment of a Managing Director and an experienced Oil and Gas technical executive to both join the board as executive Directors will be completed with the merger with Great Artesian. Mr. David Williams will join the board as Managing Director and Mr. Chris Carty as an Executive Director both having extensive oil and gas experience. These appointments follow those of Mr. Peter Wicks and Mr. Maxim Carling as non-executive directors on the 17<sup>th</sup> April 2008.

Following the merger the Board of Drillsearch will comprise 9 members. A skills review will be conducted during the merger process with the objective of

reducing the Board composition to a smaller number recognising the size of the operations of the combined group.

For further information refer to the ASX: DLS website for the 'ASX/Media Merger announcement' of 18 April, 2008 and the 'Appointment of 2 New Drillsearch Directors of 17, April 2008.

On 17<sup>th</sup> April 2008 the board announced that it had successfully completed the 2008 Rights Issue fully subscribed. The board was pleased to announce that its current projects could now be fully funded. In addition it had formed a view that the Meridian debt financing facility was no longer appropriate for our company. To this end, the board negotiated the early repayment of the Meridian Facility together with the removal of the Synthetic Options and cancellation of the security held by Meridian directly over the Tintaburra blocks and as a fixed and floating charge over the company.

For further information refer to the ASX: DLS website for the '2008 Rights Issue Completed Fully Subscribed' and 'Termination of Meridian Loan Facility' announcements of 17 April, 2008.

In line with the Board's on-going Consolidation Strategy, it is still reviewing the sale of a number of assets as it moves to maximise shareholder value by acquiring and where appropriate disposing of some of Drillsearch's non-core and non-performing assets in Australia and overseas.

The Board will continue to announce these future transactions out of the strategic review to shareholders as they occur as ASX releases.

The Board on the 11th April 2008 appointed Carling Capital Partners (CCP) as financial and corporate advisors to the board.

CCP's role includes but is not limited to:

- Advising the Drillsearch Board on capital management and corporate structure;
- Examining Drillsearch's strategic plan and related benchmarks to maximise the value of non-core assets in Australia and/or Canada; and
- Working with the Drillsearch Board to further develop and implement the medium to long term corporate strategic plan domestically and off shore.

Drillsearch continues to deliver on Consolidation to Create Value.

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### **3rd QUARTER HIGHLIGHTS**

- Quarterly sales volume and revenue from Australian production was 60,208 bbls and A\$ 6,413,244
  - Record production achieved from Cooper Oil Project reaching 106 kbbls to date this year
  - ExxonMobil takes additional 10% of WA-318-P
  - 2008 Rights Issue raises full \$ 22.3 million
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## 1. Sales Volumes & Revenue

Drillsearch's petroleum sales volumes and revenue for the quarter ending 31<sup>st</sup> March, 2008 are set out below. Comparative figures with previous quarters are also summarised.

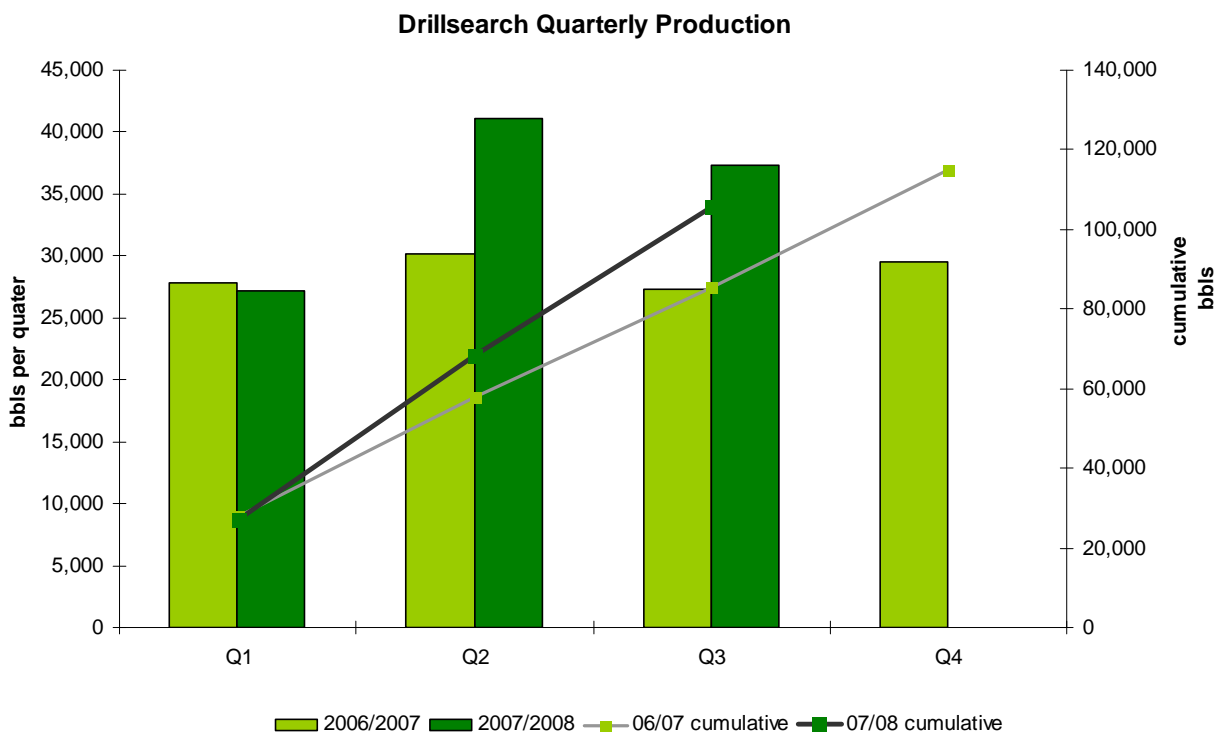
<b>Drillsearch Group</b>	<i>March 2008</i>	<i>December 2007</i>	<i>March 2007</i>
<b>Sales Volumes (BOE)</b>	81,035	49,010	47,519
<b>Group Sales Revenue (A\$) Net of GST</b>	<b>8,033,418</b>	<b>4,003,641</b>	<b>3,552,603</b>

Connection of all wells at Tintaburra and continued connection of wells drilled at Naccowlah have resulted in increased production and sales volumes throughout the third quarter.

(For additional information: See ASX Announcement 21 January, 2008 – Record Tintaburra Production)

## 2. Production and Reserves

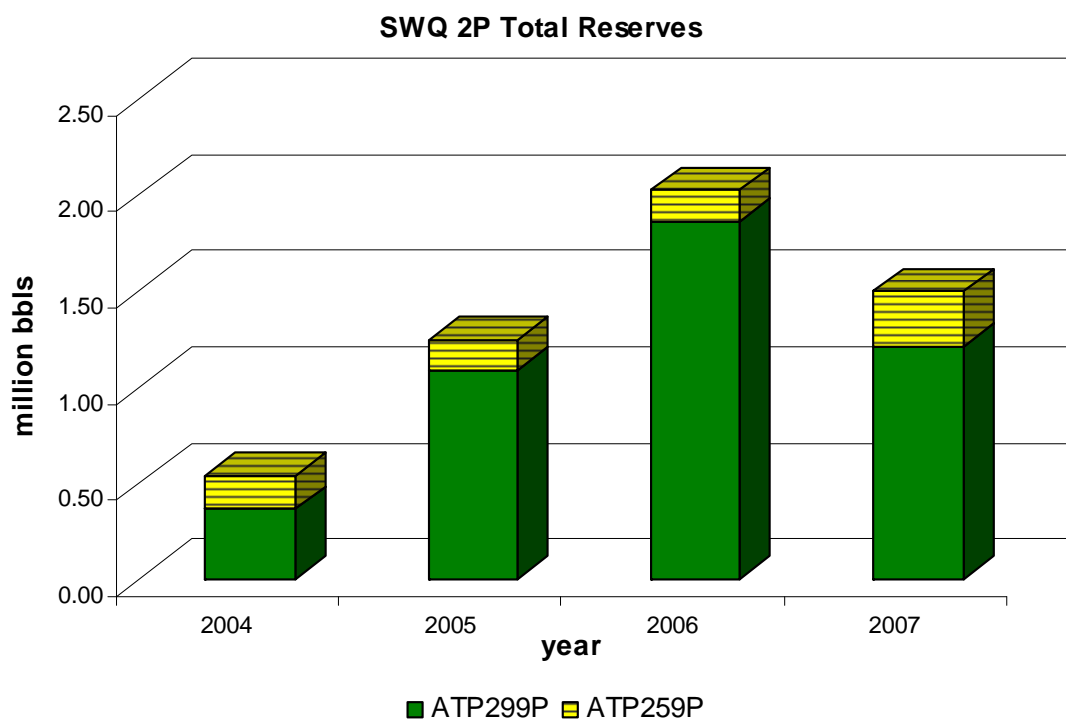
A comparison of quarterly oil production, for the previous and current financial year, from the Tintaburra and Naccowlah Blocks is shown by the graph below.



As demonstrated by the graph, the financial year to date production result puts Drillsearch in a position to exceed last financial year's production and in turn petroleum revenue for the fourth quarter as well as the coming financial year. Production during the third quarter of this financial year, from the Tintaburra and Naccowlah Blocks reached 105,602 bbls, exceeding cumulative production for the same period last financial year by 19% or approximately 20,000 bbls.

## Reserves

Southwest Queensland 2P reserves position is strong with calendar year end 2P total reserves at 1.5 million barrels.



As the graph above shows, and as was previously announced, calendar year end 2007 2P total reserves were lower than the previous calendar year, due to revisions based on drilling and production results at the Tintaburra Block. This reduction is due to the higher than expected water saturation and poorer than expected reservoir quality encountered at ATP299P. The drilling campaign at the Naccowlah Block has increased 2P reserves by 75% from 160,000 bbls to 280,000 bbls. Drillsearch looks forward to continued development opportunities in both blocks.

*(For additional information: See ASX Announcement 8 April, 2008 – Reserves update)*

### **3. Development**

#### ATP-299-P Tintaburra Block

*Drillsearch - 10% Working Interest*

The water injection program at Tintaburra is progressing with chemical tracers identified in several production wells at Mulberry, pressure build up during shut in times at Mulberry, Endeavour and Talgeberry, and an overall increase in fluid production. The production optimisation program is well underway at Tintaburra which will lead to improved field management at Tintaburra.

#### ATP-259-P Naccowlah Block

*Drillsearch - 2% Working Interest*

Wells drilled in the previous quarter continue to be tied in at the Naccowlah block; with three new Jackson wells brought on-line, Jackson 48, Jackson 49 and Jackson 50.

#### **4. Exploration**

##### ATP-783-P – Cooper Basin – SW Queensland

*Drillsearch – 100% Working Interest*

Santos has continued native title negotiations this quarter, and has also moved ahead with the planning of approximately 200 square kilometre 3D seismic survey. This survey will earn Santos a 30% participating interest and Operatorship in the permit and will locate future exploration wells. The seismic survey is scheduled for mid-2008.

##### Acreage Award – Cooper/Eromanga Basin – SW Queensland

*Drillsearch Group – 100% Working Interest*

Drillsearch Group, which includes Drillsearch Energy Limited and its 62% held Canadian subsidiary Circumpacific Energy Corporation (TSX: CER), have begun to compile all publically available well logs and seismic data for its joint geologic study of the area that covers its newly awarded acreage in the Cooper and Eromanga Basins. This study will be used by the group to rank and plan the forward exploration programs in the eight exploration blocks.

*(For additional information: See ASX Announcement 8 November, 2007 – Major Petroleum Land Acquisition)*

##### ATP-823-P – Surat Basin – East Queensland

*Drillsearch – 100% Working Interest – Operator*

Drillsearch completed its preliminary geologic and geophysical review and interpretation of publically available data in the ATP823P block. Drillsearch has identified several promising leads with cumulative original oil in place estimates of several million barrels. Currently Drillsearch is planning to acquire new seismic in the block. This seismic data will be used to de-risk and rank the leads before entering into the forward exploration drilling program. Drillsearch is actively seeking farmin partners and used the recent 2008 APPEA convention as a forum for attracting farminees to this and its other opportunities.

##### Pickanjinie No. 10 Well - PL 5, Queensland

*Drillsearch – 75% Working Interest in the Well*

The well continues to produce sales gas.

##### WA-318-P – Southern Bonaparte Gulf, Offshore WA

*Drillsearch – 100% Working Interest – Operator*

ExxonMobil has excised its option to earn an additional 10% in WA-318-P by funding US\$ 1.35 million of the costs associated with the upcoming 2D seismic acquisition and processing program within the permit. This seismic acquisition is part of the WA-318-P required work program and is aimed at filling in gaps in the current seismic data set and providing additional data for forward exploration within the permit. The survey is expected to commence in the fourth quarter.

*(For additional information: See ASX Announcement 20 March, 2008 – MARINA UPDATE)*

##### WA-352-P - Carnarvon Basin, Offshore WA

*Drillsearch – 100% Working Interest – Operator*

Drillsearch continues its interpretation of the reprocessed 2D seismic data, and is planning a new seismic acquisition survey, to de-risk leads identified during the interpretation process.

PPL-224 – Offshore Papua New Guinea  
Drillsearch – 5% Working Interest

The operator continues with geologic and geophysical studies to de-risk the 1.4 Tcf Flinders Prospect before reaching a decision to drill.

**5. Appraisal**

Turtle/Barnett, WA-13-R – NT/RL3 – Southern Bonaparte Gulf, Offshore WA  
Drillsearch – 100% Working Interest – Operator

During the quarter Drillsearch continued farm out negotiations, reprocessing of the vintage seismic data covering the Turtle/Barnett project area, and is evaluating the feasibility of development options for the Turtle Barnett Project.

*(For additional information: See ASX Announcement 18 January, 2008 – Rights Issue and Appendix 3B)*

**6. Operations – Canada**

Operations in Canada are conducted by Circumpacific Energy Corporation, a 62% owned Canadian subsidiary of Drillsearch Energy Limited.

Gross petroleum revenue for the quarter ended 31<sup>st</sup> March 2008, was A\$ 1,620,174.

No additional drilling or seismic surveys were undertaken during the quarter. Drillsearch is currently reviewing its Canadian assets and the identified opportunities for 2008 in Canada and will make further ASX announcements on these once they have been committed to and/or confirmed.

7. **Petroleum Sales, Revenue and Capital Expenditure Summary –  
Quarter Ended 31<sup>st</sup> December, 2007**

**Sales Volume– BOE**

	<b>Sales Volume</b> 3 <sup>rd</sup> Quarter Ended 31 <sup>st</sup> March 2008	<b>Sales Volume</b> 2 <sup>nd</sup> Quarter Ended 31 <sup>st</sup> December 2007
Drillsearch Energy Limited – Australia	60,208	26,793
Drillsearch Energy Limited – Canada	20,827	22,217
<b>Group Total</b>	<b>81,035</b>	<b>49,010</b>

**Sales Revenue - A\$**

	<b>Revenue</b> 3 <sup>rd</sup> Quarter Ended 31 <sup>st</sup> March 2008 (Net of GST)	<b>Revenue</b> 2nd Quarter Ended 31 <sup>st</sup> December 2007 (Net of GST)
Drillsearch Energy Limited – Australia	6,413,244	2,854,208
Drillsearch Energy Limited – Canada	1,620,174	1,149,433
<b>Group Total</b>	<b>8,033,418</b>	<b>4,003,641</b>

**Capital Expenditures – A\$**

	<b>Capital Expenditures</b> 3 <sup>rd</sup> Quarter Ended 31 <sup>st</sup> March 2008 (Net of GST)	<b>Capital Expenditures</b> 2 <sup>nd</sup> Quarter Ended 31 <sup>st</sup> December 2007 (Net of GST)
Drillsearch Energy Limited – Australia	448,178	5,317,660
Drillsearch Energy Limited – Canada	414,941	185,360
<b>Total Capital Expenditures</b>	<b>863,119</b>	<b>5,503,020</b>

Exchange Rate -- \$1 Australian = \$0.909 Canadian

## **Subsequent Events**

### *Full subscription to 2008 Rights Issue*

The 1:1 Rights Issue raised \$9.3 million from existing shareholders subsequent to which the board proceeded to place the outstanding balance of \$13.0 million. This placement was successful and the full \$22.3 million raised places Drillsearch in a strong position to build on its strategic plan.

*(For additional information: See ASX Announcement 17 April, 2008 – 2008 Rights issue Fully Subscribed)*

### *Termination of Loan Facility*

Following the successful completion of the 2008 Rights Issue the loan facility arrangement with Meridian International Capital Limited was repaid in full. The settlement transaction also removed all current and future liabilities associated with synthetic options that were issued to the financiers as part of the loan facility. A total of \$15.5 million of the \$22.3 million raised in the 2008 Rights Issue was applied to extinguish the loan facility. This repayment means that the company is now debt free.

*(For additional information: See ASX Announcement 17 April, 2008 – Termination of Loan Facility)*

### *Planned Merger with Great Artesian Oil and Gas*

Drillsearch Energy Limited and Great Artesian Oil and Gas have agreed to merge [subject to GAOG shareholder approval] to build a successful and sustainable mid tier Australasian oil and gas exploration and production company. This merger will specifically benefit Drillsearch shareholders by bring together talented management and complementary assets. As well as increasing the market size and scale relative to its peers the merged companies will see increased liquidity, institutional interest and better access to funding. All of which will Create Value for our shareholders.

*(For additional information: See ASX Announcements 18 April, 2008 – Great Artesian Merger with Drillsearch and Great Artesian and Drillsearch merger presentation)*

Yours faithfully,

**DRILLSEARCH ENERGY LIMITED**

**PETER SIMPSON  
EXECUTIVE CHAIRMAN**

### **Abbreviations**

BOE	Barrel of oil equivalent
Tcf	Trillion cubic feet of gas
sq km	square kilometres
mmbbl	million barrels