

2010 Annual General Meeting

Managing Director's Report



Brad Lingo
23 November 2010

Drillsearch

Thank you Mr. Chairman

And thank you to our shareholders who are here today

I am truly delighted to be here today to deliver my second Managing Director's report.

I will be focusing on our recent successes, our strategic vision for the company and where this will take us in terms of delivering shareholder value.

Company Snapshot – Strong Growth Pipeline

For investors Drillsearch represents ...

- Material Cooper Basin footprint
- Control of our own destiny
- Existing oil producer
- Extensive low risk, high profit growth pipeline
- Significant leverage to oil
- Near term exploration drilling program with significant NPV potential



We believe this makes Drillsearch a compelling investment today

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A quick snapshot on how we see Drillsearch and how we think our owners should think of the company

Quite simply we see Drillsearch as the company for investors

Seeking exposure to a company with a material position focused on

Low risk, high return exploration

Significant exposure to oil exploration and development

Exposure to activity in Australia's premier onshore oil & gas province – the Cooper Basin

Then we believe that Drillsearch is the “best of breed” and should be the investment of choice

Our fundamental strategy remains unchanged

- **Cooper Basin** our core geographical focus
- **Harvest** our oil production assets
- **Target** our numerous, high return oil exploration prospects
- **Commercialise** our substantial portfolio of wet gas discoveries
- **Focus** on the unconventional gas potential in our existing acreage
- **Enhance** and rationalize our portfolio focusing on highest value opportunities

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Fundamentally our business is about the Cooper Basin and the oil & gas wealth locked beneath the surface:

Fundamentally our strategy is to.....

- Harvest our oil production assets
- Targeting our numerous high return oil exploration projects
- Commercialising our existing wet gas discoveries in the Western Cooper.
- We are also focussing on the emerging unconventional resource potential of our Cooper Basin holding
- And finally our strategy is driven to **critically review & enhance our portfolio**
- In this regard we focus on exiting any assets that do not fit the focussed strategy & building up our position in those Cooper Basin play fairways that we believe have real growth potential.

Why the Cooper Basin?

- DLS has built prime acreage position while others focussed elsewhere
- Underexplored / low exploration drilling density
- High exploration success rates
- Significant missed or overlooked oil & gas deposits
- Significant infrastructure – simplifies & speeds up commercialisation
- Proven new technologies increase opportunities
- Most of all the Cooper Basin is developed but not mature

In the Cooper, a highly focussed approach leads to success & high returns

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Why the Cooper Basin?

- The first point I want to make and you may have heard me and you will continue to hear me say this many times – **THE COOPER BASIN IS NOT MATURE**
- The basin can hardly be mature where there have only been about 1800 wells drilled over 35,000 km² – that's 1 well per 20km²
- The Western Flank Oil Fairway demonstrates this point quite well – large parts of the basin are simply lightly or unexplored
- Firstly, Drillsearch has built a **unique & high quality position** in the basin while others looked for growth & opportunity elsewhere
- The basin has very **high exploration success rates** – on average 50% and Drillsearch's recent experience has been 80%
- There is significant **Missed Pay** where discoveries have already been made and pay zones have been missed or ignored
- There is ready access to infrastructure**, services & contractors – simplify & speed up development times
- Finally, **new technologies** are unlocking new plays previously overlooked.

Our past year – Delivering on promises

- ✓ Chiton - First oil field development & production
- ✓ Successfully proved up significant wet gas discoveries
- ✓ Booked major big increase in 2P/2C Reserves and Resources
- ✓ Built up a high quality, long term exploration pipeline – both oil & gas
- ✓ Enhanced our portfolio - asset sales & proposed Innamincka merger
- ✓ Built up a strong technical & commercial internal team

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Although we haven't done as much as we wanted to over the last financial year & this has been the result of the unprecedented rains & flooding that started late last January,

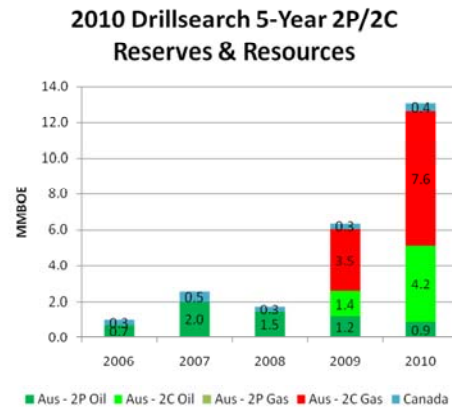
WE HAVE ACHIEVED A LOT . . .

- Our first oil field development with Chiton
- We have proved up our significant wet gas discoveries – notably, Brownlow & Canunda
- We have booked major increases in 2P/2C reserves & resources
- We have built up a high quality, long term exploration pipeline
- We have enhanced our portfolio – the big event in all of this is the proposed merger with Innamincka
- And as our chairman discussed we have built a very capable team to take the organization forward

Delivering Reserves & Resources

Major increases over FYE 2009

- ↑ 107% increase in 2P/2C Reserves and Contingent Resources to 12.7MMboe
- ↑ 93% increase in 2P/2C liquid hydrocarbons to 5.1MMboe
- ↑ Western Cooper Gas & Liquids 2C Contingent Resources of 11.5MMboe
- ↑ Liquids make up 40% of 2P/2C Reserves & Contingent Resources



Numbers independently audited by Gaffney Cline & Associated Pty Ltd

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A great gain for has been our increase in 2P/2C reserves & resources

The first point I want to make is that Drillsearch is a real standout and leader in this area.

We are one of the few companies that has its reserves & resources independently 3rd party audit verified.

We do this so you our shareholders can have a high degree of confidence in the company's reserves & resources

We have achieved a major milestone on this front. The numbers speak for themselves

One point to note is that Beach carries the Western Cooper Gas & Liquids contingent resources as 2P reserves.

We agree with this position and GCA has indicated once we have an agreed JV field development & commercial plan they too will classify these as 2P reserves.

We believe we are well on our way to satisfying both these requirements.

New Oil – First Oil

- Establishes PEL 91 as major part of Western Flank Oil Fairway
- On-time/on-budget development of first Western Flank oil field
- First commercial production in Western Flank Oil Fairway

✓ **RESULT – first oil in Western Flank Oil Fairway**

Chiton Production Facilities



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In our New Oil business we have achieved several major milestones and we have an exciting year ahead.

Firstly, we have delivered our first field development in the Western Flank Oil Fairway with the completion of the Chiton Oil facilities.

Chiton first started production in February but was quickly shut-in due to the Cooper flooding but it is now back in production

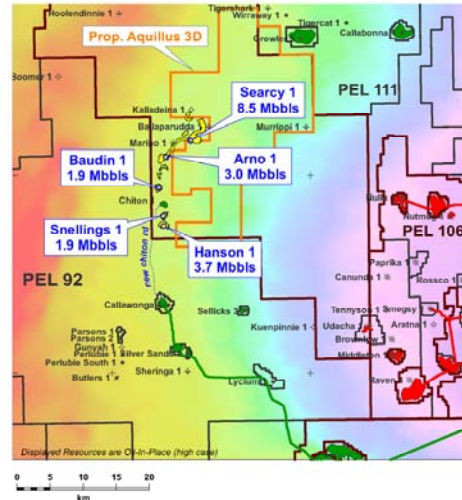
The project came in both on time and on budget reinforcing the Western Flank Oil Fairway as a very attractive area to invest

A great result – Drillsearch's first oil production in the Western Flank Oil Fairway

New Oil – Expanded exploration program

- Rain & flooding delayed 2010 drilling & seismic program
- Birkhead Channel play fairway identified
- Expanded exploration program planned for January 2011 start

✓ **RESULT – expanded 5 well exploration program**



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The drilling & 3D seismic we had planned for this past year has of course been postponed

However we did not sit idle. We took this opportunity to expand the exploration program.

We also did a tremendous amount of work to prove up the Birkhead Channel oil play prospects within PEL 91. This play has been very successful for VicPet & Impress just to the north of us.

At the last AGM we indicated that we were planning to drill 2 wells in the Western Flank Oil Fairway. With this additional time & work we have been able to expand the exploration program to 5 wells

2 of these wells are targeting Birkhead Channel pay zones – the Searcy Prospect is targeting 8.5 mmbbls (high oil in place)

Also you may have seen that yesterday Beach announced a proposed merger with Impress Energy paying \$73 million for a much smaller Cooper footprint

This further validates the attractiveness of the Western Flank Oil Fairway and the Birkhead Channel oil play in PEL 91

Wet Gas – major upgrades

- Successful wet gas extended production testing campaign
- Brownlow tests at 18.1 mmscfd – equalling highest Cooper Basin test rates
- Testing establishes Canunda as major liquids discovery

✓ **RESULT – major resource increase to 11.5 MMBOE**



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We have also achieved strong results in our Wet Gas business

Our successful testing of the Brownlow & Canunda wet gas discoveries and additional follow-up testing on the Middleton discovery has led to the major increase in our reserves & resources

Brownlow has test flow rates that match the best in the Cooper

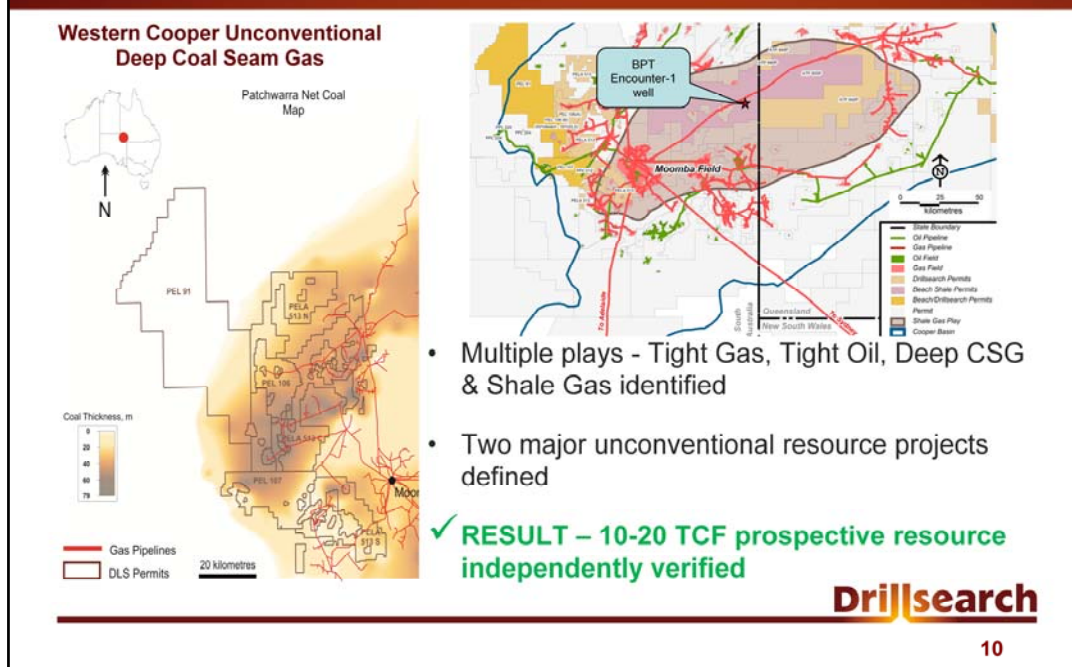
Canunda testing is on-going and looks to be a major liquids discovery with liquids production delivering up to 180 to 200 bbls of condensate per mmscf of gas production

Gaffney Cline has independently determined that we have established 11.5 mmoeb of gas, condensate & LPG 2C contingent resources

Through delivering these strong test results & the independent reserve certification, we believe we are on the cusp of being able to deliver a significant wet gas development

We are working very hard along side Beach to deliver this project and are guardedly optimistic that we will achieve this result in the near future

Unconventional – major plays & resources defined



When it comes to our unconventional business, this is possibly some of the most exciting progress we have made

First, we have identified that we have significant footprints in Tight Gas, Tight Oil, Deep CSG and Shale Gas

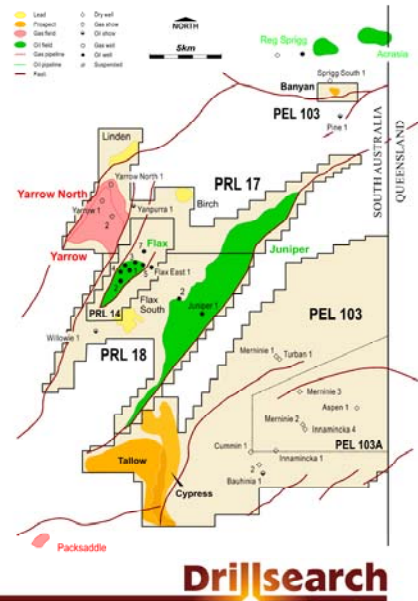
When it comes to the Western Cooper Unconventional Project we have already been able to announce prospective resources of 10-20 TCF of recoverable unconventional gas in the Deep CSG play

We believe this is just the tip of the iceberg as we have also identified the tight gas, tight oil and shale gas plays across our acreage

We believe that each of these unconventional resource plays has the potential to become real game changers in the Cooper and across Eastern Australia

Delivering transactional growth - Innamincka

- Flax Tight Oil discovery with 3C gross contingent resource oil in place of 45 mmbbls
- Combined Flax/Juniper Tight Oil gross prospective resource potential up to 171 mmbbls oil in place
- Yarrow/Yarrow North Wet Gas discoveries with gross 3C contingent resources of up to 26 BCF gas
- Ginko & Crocus Wet Gas discoveries with gross 3C contingent resources of 55 BCF
- Significant Wet Gas exploration potential with Tallow & Cypress prospects at 185 BCF (High) gross prospective resources
- Banyan Oil Prospect - significant shallow oil exploration potential with 1 mmbbls (High) prospective resources



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Now moving to transactional growth

The Innamincka merger delivers some exceptional opportunities for Drillsearch shareholders.

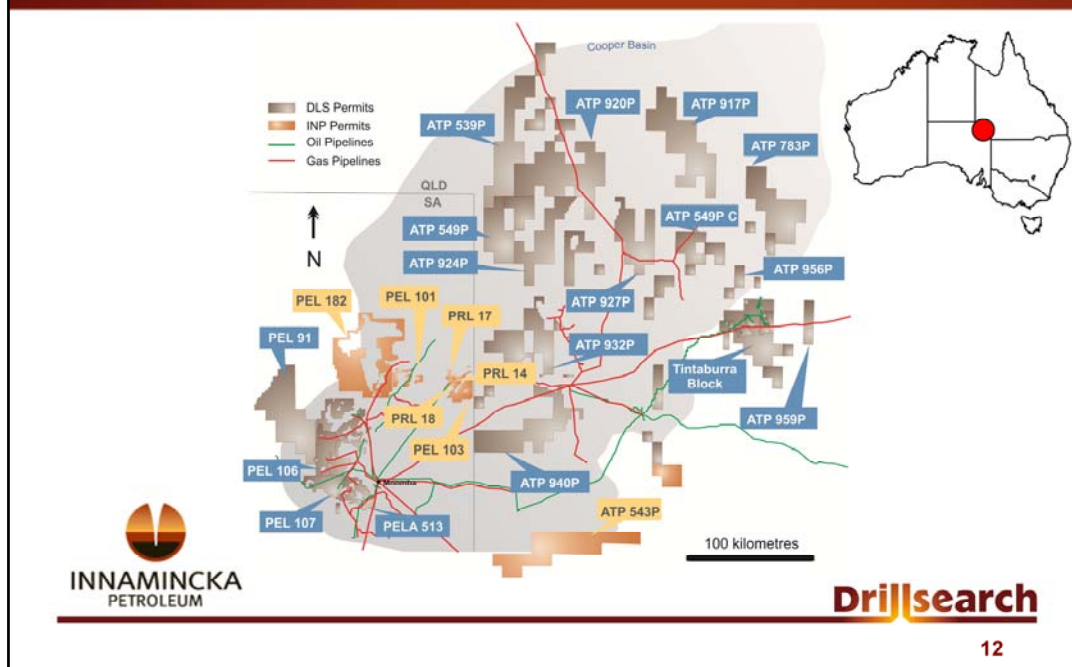
Firstly, it expands our New Oil position in the Western Flank Oil Fairway with the interest in PEL 182

This block holds the same Birkhead Channel oil play that we have in PEL 91 and which Beach is focussing on in the merger with Impress

The Innamincka merger also provides Drillsearch with an expanded position in Wet Gas with the multiple discoveries they have already made

Finally Innamincka brings with it exposure to a very large discovered and undeveloped tight oil resource with potential prospective resources of up to 171 mmbbls of oil in place

Our Combined Cooper Basin assets...

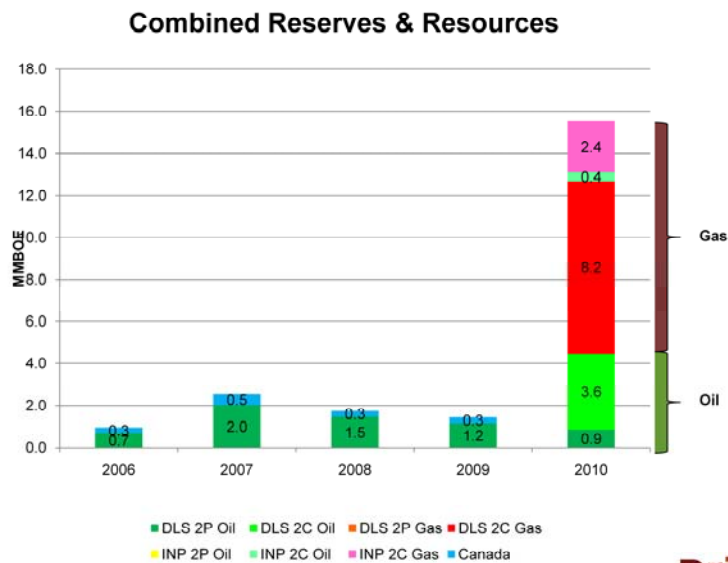


I am sure most of you are familiar with the position we hold in the Cooper Basin.

You can see how the Innamincka merger adds to that position

You can see from this map that the Innamincka acreage really consolidates the Drillsearch position

Delivering results – Combined Reserve & Resources



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The Innamincka merger which is still subject to Innamincka shareholder approval - will also deliver a major increase in the combined group's 2P and 2C reserves and resources.

This increase really underwrites the developing value of Drillsearch and is not reflected in the reserve & resource growth numbers I outlined earlier

Financial Strength

- Admitted to the S&P/ASX All Ordinaries Index
- Improving cash position to [\$9 million] through sale of non-core asset
- Secured \$15 million YA Global Equity Line of Credit Facility
- Innamincka delivers [\$7-20] million in cash + potential non-core asset sale proceeds
- Working on securing field development financing for Wet Gas Project



Standard & Poor's Announces March Quarterly Retractions in the S&P/ASX Indices

STOXXY, Mar 7, 2016 - S&P Indices, the leading provider of equity indices in Australia, announced today that the following constituent additions and deletions will take place in the S&P ASX indices, effective after the close of trading on Mar 15, 2016:

At the March quarterly review, the entire S&P ASX index suite is rebalanced, which includes the All Ordinaries Index. The quarterly rebalance considers the aggregate market capitalization and liquidity of stocks for the preceding month as a basis for eligibility.

"The March quarterly rebalance saw limited index portfolio turnover at the key end of the S&P ASX index suite. Index inclusions and exclusions across the S&P ASX 200 index hierarchy were concentrated in the Technology and Materials sectors, with those sectors representing over 30% of the turnover," said Greg Maguire, Head of S&P Indices.

Notable to the S&P ASX 200, Consumer Discretionary, and Materials sectors. Notable prominently as inclusions, stocks from the Materials sector dominated the inclusions into the All Ordinaries tracking up half of the additions.

All Ordinaries

ADDITIONS

CODE	NAME
ACL	Alchemia Limited
ADR	Adrian Resources Limited
AUM	Aurora Telecommunications Limited
AVN	Aurea Limited
AZZ	Aurizon Energy Limited
BW	Brimley Resources Limited
BKS	Telecommunications Trust
C.A	Capitol Limited
C.M	Calpine Resources Limited
CDI	CDI Resources Limited
CCP	Credit Corp Group Limited
CTL	Coaltech Mines Limited
CFB	Coventry 10-10 Limited
CVN	Centex Metals Limited
DSG	Diamond Group Limited
DLS	Dalrymple Energy Limited

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In terms of financial strength we believe that we are well positioned to deliver the plan we have laid out today

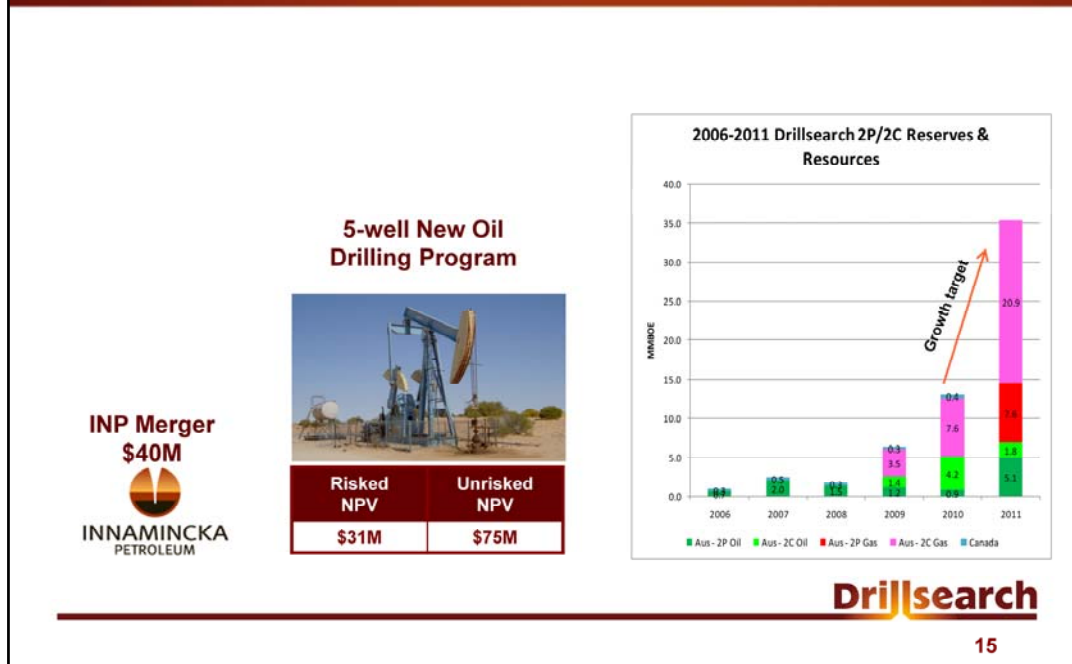
As we indicated last year we have been able to realize additional capital to invest in our Cooper Basin businesses from the portfolio rationalization process

We have also been able to gain recognition with S&P becoming part of the ASX All Ords

We have also been able to attract access to additional capital through financing

All of this will be important as we progress with the development of the Western Cooper Gas & Liquids Project

The year ahead – high impact events



We do see it as an exciting year ahead with a number of high impact events that will be unfolding over the coming weeks and months.

Firstly we look forward to completing the friendly merger with Innamincka and bringing our two organizations together enhancing not only our joint assets but also the combined operating capability of the two companies

Early in the new year we look forward to kicking off what we see as a high impact 5-well exploration drilling campaign in the Western Flank Oil Fairway with Beach

Overall we are also setting some significant reserve and resource growth targets to achieve by the end of 2011 looking to convert a significant portion of our existing 2C wet gas contingent resources into 2P commercial reserves as well as expanding our wet gas contingent resources.

Our next steps

	2009-2010	2010-2011
Mature Oil	<ul style="list-style-type: none"> ✓ Maintaining positive cash flow ✓ Divest non-performing assets 	<ul style="list-style-type: none"> • Continue 2009-2010 plan
New Oil	<ul style="list-style-type: none"> ✓ Deliver Chiton oil development ✓ Accelerate Western Flank exploration ✗ Drill 2 new oil exploration wells ✗ Acquire 400 km² Aquillus 3D 	<ul style="list-style-type: none"> • Expanded 5-well drilling program • Acquire 434 km² Aquillus 3D • Develop new oil discoveries
Wet Gas	<ul style="list-style-type: none"> ✓ EPT wet gas discoveries ✓ Prove up wet gas resources ✗ Drill new wet gas wells ✓ Progress pilot production project 	<ul style="list-style-type: none"> • Progress pilot production project • Secure gas & liquids sales contracts • Develop Canunda liquids discovery • Drill new wet gas appraisal wells
Unconventional	<ul style="list-style-type: none"> ✓ Continue resource assessment ✓ Design coring program 	<ul style="list-style-type: none"> • Start coring as part of wet gas drilling
Portfolio	<ul style="list-style-type: none"> ✓ Complete non-core divestitures 	<ul style="list-style-type: none"> • Divest non-core assets • farmout lower priority permits

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In summary our next steps for each of our businesses are set out in this slide and I won't dwell on them further

This shows the forward plan we put forward at the AGM last year and how we have performed against that plan

This shows that we have largely delivered to plan and what we are planning for the coming year.

We also see that this shows how we are delivering shareholder value

We look forward to your continued support as owners of the company in endorsing this plan and using these next steps as a bit of a checklist in following our progress.

Key messages

1. **People, Projects & Plan**
2. **Unique acreage position**
3. **High Profit Oil**
4. **Major New Conventional Gas & Liquids Development**
5. **Emerging Unconventional Gas Resources**

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Our key messages to you our owners are

- We have the People, Plan & Projects to deliver shareholder value and we are continuing to build the team and are actively recruiting high calibre candidates
- Drillsearch holds a truly unique position in the Cooper Basin and we look to build on this position to increase reserves and develop positive cash flow
- Our **New Oil Business** represents a High Profit/High Return business to drive our growth in the near term
- Our **Wet Gas Business** and the Western Cooper Gas & Liquids Project builds on this giving us even more liquids revenues over the long term; and
- Our **Unconventional Resource Business** provides shareholders with a real opportunity to generate truly break through value through proving this up as a truly world class economic resource
- Thank you for this opportunity and I am always available to discuss Drillsearch and its plans, prospects and future
- You can trust that you have a passionate team about where the company is headed and we look to deliver on this in the coming days, weeks and months.

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- The Reserves and Resources assessment follows guidelines set forth by the Society of Petroleum Engineers - Petroleum Resource Management System (SPE-PRMS). The Reserves estimates used in this presentation were compiled by Mr David Evans, Chief Technical Officer of Drillsearch Energy Ltd, who is a qualified persons as defined under ASX Listing Rule 5.11 and has consented to the use of the Reserves figures in the form and context in which they appear in this presentation.

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