

# Quarterly Report



## Highlights

- Revenue of \$6.86m for the quarter, 218% higher than the previous quarter.
- Australian Production of 29,345 bbls, up 60% on the previous quarter.
- Cash position of \$9.1m with no debt.
- Completed sale of Circumpacific to WPC.
- Received \$3.5m settlement for crude oil inventory.
- The proposed merger with Innamincka Petroleum Limited via a friendly scheme of arrangement did not succeed.

## Financial highlights

Description	Units	December 2010 Half Year	September 2010 Quarter	December 2010 Quarter	Quarter Change	Quarter Change %
<b>Oil &amp; gas production</b>						
Australia	boe	47,658	18,313	29,345	11,032	60%
Canada	boe	24,084	18,317	5,767	N/A	N/A
Total Production	boe	71,742	36,630	35,112	N/A	N/A
<b>Oil &amp; gas revenues</b>						
Australia	A\$	8,875,323	2,250,335	6,624,988	4,374,653	194%
Canada	A\$	1,138,939	895,869	243,070	N/A	N/A
Total Sales Revenue	A\$	10,014,262	3,146,204	6,868,058	N/A	N/A
<b>Production expenditure</b>						
Australia	A\$	2,182,842	1,031,281	1,151,561	120,280	12%
Canada	A\$	556,263	426,134	130,129	N/A	N/A
Total Production Expenditure	A\$	2,739,105	1,457,415	1,281,690	N/A	N/A
<b>Oil &amp; gas capital expenditure</b>						
Australia	A\$	6,898,518	4,015,752	2,882,766	(1,132,986)	-28%
Canada	A\$	519,174	438,494	80,680	N/A	N/A
Total Expl & Dev Expenditure	A\$	7,417,693	4,454,246	2,963,447	N/A	N/A
<b>Financials</b>						
Cash & Cash Equivalents	A\$	9,088,044	4,652,647	9,088,044	4,435,397	95%
Debt	A\$	None	None	None	-	-
Hedging	A\$	None	None	None	-	-
<b>Capital</b>						
Issued Shares	# millions	2,058.08	2,058.08	2,058.08	-	-
Unlisted options	# millions	115.50	115.50	115.50	-	-

\* Boe stands for barrels of oil equivalent

\* Canada totals are 100% to 31 October 2010. Canadian cash and cash equivalents are not included. Drillsearch's 79.5% interest in CER was disposed off in November 2010 and is accounted for on an equity basis.

\* Half Year December 2010 figures are pre-audit review.

## Production and revenue

### Australia

Australian oil production for the December quarter was 29,345 barrels (bbls), which was a 60% increase over the prior quarter (18,313 bbls). This increase largely resulted from the Chiton-1 Oil Field contributing 11,636 bbls after being re-instated following shut-in as a result of flooding in the Cooper-Eromanga Basin.

The number of barrels sold in the quarter included the balance of all inventory, totalling 43,711 bbls, held in the decommissioned Jackson to Moonie pipeline.

Australian revenues for the December quarter were \$6.62m, which was 194% higher than the previous quarter of \$2.25m. This included \$3.75m in Jackson to Moonie pipeline inventory sales and \$0.45m in Chiton oil sales.

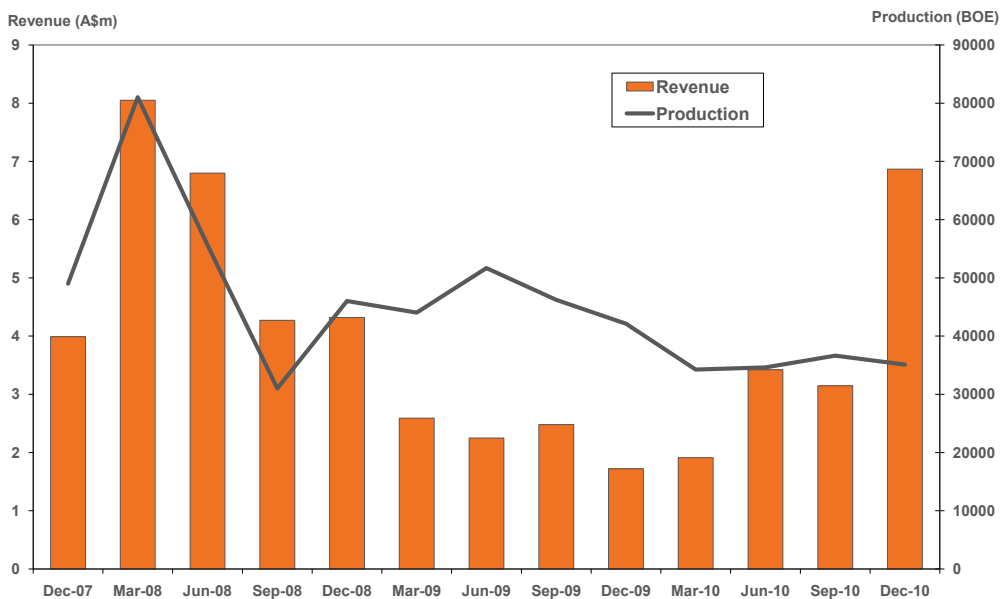
The strengthening of the oil price per bbl has helped to improve our quarterly revenue. Drillsearch's Australian operations realised a quarterly average oil price of A\$86.71/bbl. This compares with a price of A\$80.7/bbl in the previous quarter.

### Canada

Canadian oil and gas production shown for the December quarter from Circumpacific was 5,767 barrels of oil equivalent (boe), although this represents just the October production as Drillsearch completed the sale of Circumpacific in mid November 2010. Drillsearch no longer has Canadian production and will therefore not report Canadian operations in future quarterly reports.

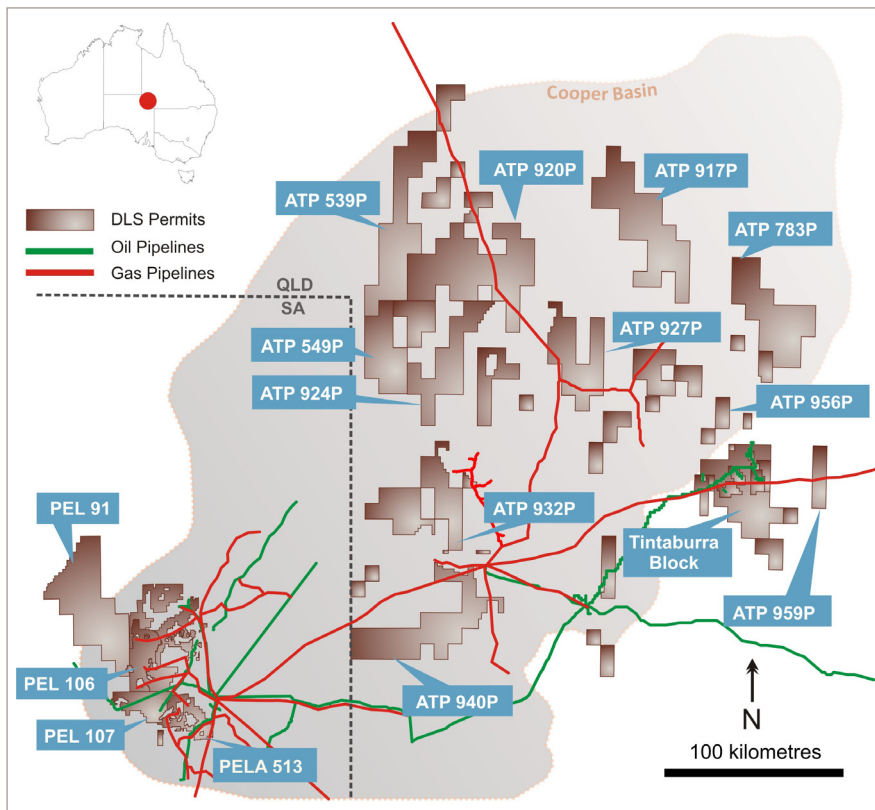
Canadian revenues for October 2010 were A\$0.24m.

Revenue and Production History



Source: Drillsearch Energy Ltd

## Development and exploration



Drillsearch Cooper-Eromanga Basin Assets

Source: Drillsearch Energy Ltd

### New Oil Business

There was no drilling activity in the last quarter. The drilling of five exploration wells in PEL 91 in the Cooper-Eromanga Basin Western Flank Oil Fairway in South Australia (see attached map) has been planned for the last two quarters but delayed by flooding and wet weather in the Cooper-Eromanga Basin. This drilling campaign is now expected, weather permitting, to commence late in the first quarter of 2011. The working interests in PEL 91 are Drillsearch (60%) and Beach Energy as Operator (40%).

Beach Energy, advised during the quarter that it had secured a drilling rig for the Western Flank drilling program. The Ensign #18 drilling rig is scheduled to start in PEL 91 for the five well program when its current commitments are complete.

Over the five prospects, the drilling program will target mean prospective recoverable resources of 3.5 mmbbls with a high side potential of up to 7.3 mmbbls prospective recoverable oil resource. The details of the mean and high side un-risked prospective resource potential for each of the oil prospects are shown in the table below.

Unrisked Prospective Recoverable Oil Resources					
Prospect	Primary Target	Oil-in-Place		Recoverable	
		Mean (bbls)	High (bbls)	Mean (bbls)	High (bbls)
Baudin	Namur	980,000	1,970,000	520,000	1,100,000
Hanson	Namur	1,640,000	3,710,000	820,000	2,000,000
Snellings	Namur	850,000	1,900,000	430,000	1,000,000
Arno	Namur/Birkhead Channel	1,660,000	3,000,000	580,000	1,170,000
Searcy	Birkhead Channel	4,300,000	8,500,000	1,100,000	2,200,000

All of the prospects are within the Modiolus 3D Seismic Survey and within 1-2 km of the Chiton Oil Field and infrastructure. This means any discovery could be commercialised quickly and would provide immediate cash flow to the Company. The exploration drilling is targeting potential shallow oil pools within the Namur Sandstone, Birkhead Formation Channels, Hutton Sandstone and the Poolowanna Formation, all proven oil plays within the Western Flank Oil Fairway.

A discovery in any of these prospects would add significantly to Drillsearch's reserves and overall production. We are optimistic as to our likelihood of drilling success given our historical success rate of well over 50% in the Cooper-Eromanga Basin region when drilling on 3D seismic.

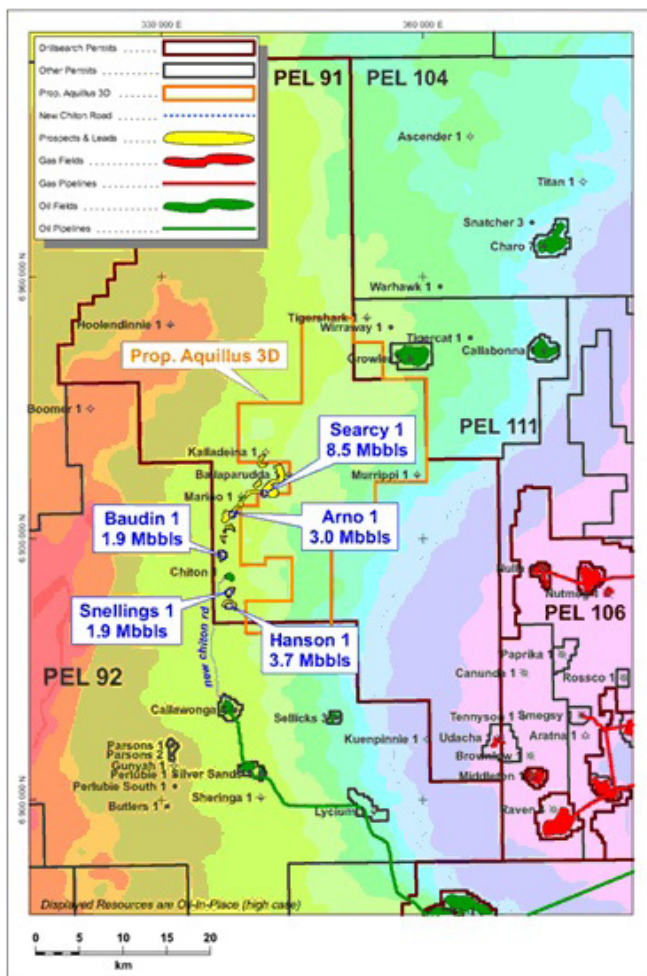
The PEL 91 Aquillus 3D Seismic Survey of 434 km<sup>2</sup> has been delayed due to flooding in the Cooper-Eromanga Basin and is now expected to commence in May 2011. It will cover over 20 Namur sandstone oil prospects previously identified in the block as well as potential prospective Birkhead Formation plays on trend with the Wirraway, Growler and Snatcher oil discoveries in PEL's 114 and 104.

Significant progress has been made in continuing to mature through to award the eight South West Queensland ATP blocks. Landmark agreements with both the Wongkamurra and Kullilli Traditional Owners covering six pending Authority to Prospect (ATP) exploration award block application areas in South West Queensland have been reached.

Drillsearch and the Wongkamurra and Kullilli Traditional Owners have also entered into Cultural Heritage Management Plan Agreements. These agreements are necessary to be able to conduct exploration and production activities within the ATPs.

Securing these Native Title and Cultural Heritage Management Plan agreements is a mandatory pre-requisite to the Queensland Government being able to offer the award and issue of formal ATP exploration licenses to Drillsearch.

Drillsearch has been advised by the Queensland Government that the Right to Negotiate and other gazettal notices will be issued early in 2011. Upon completion of this process, a formal offer and award of the ATP exploration licenses should be made. Drillsearch was awarded preferred bidder status for each of these ATP exploration blocks in late 2007.



Source: Drillsearch Energy Ltd

## Wet Gas Business

The extended production test (EPT) for the Canunda Wet Gas discovery is suspended until a workover can be completed. This will allow for the retrieval of wireline and pressure gauges and the reconfiguration of the well to optimise production performance from the rich condensate/volatile liquids pay interval. The EPT is expected to recommence late in the first quarter 2011.

Both Drillsearch (50%) and Beach Energy as Operator (50%) have declared the Canunda condensate discovery commercial and have assessed that it contains at least 2.8 million barrels of oil equivalent (MMBOE) including 1.3 million barrels (MMbbls) of liquid hydrocarbons, comprised of condensate and LPGs (as set out in the table below):

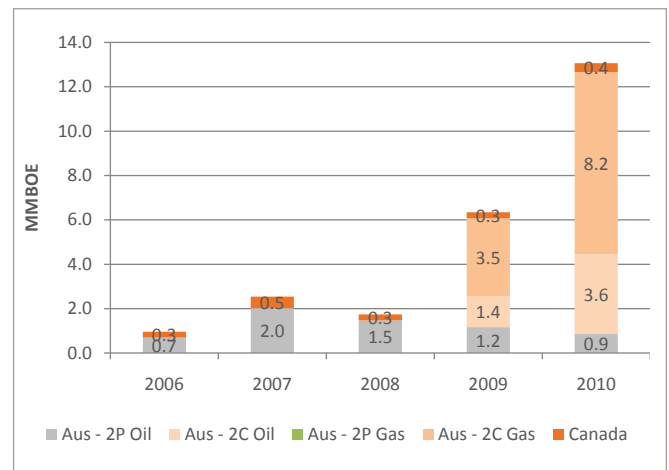
CANUNDA GAS & LIQUIDS DISCOVERY Estimated 2C Contingent Resources*			
Sales Gas (BCF)	Condensate (bbls)	LPG (tonnes)	Total MMBOE
8.0	928,000	46,000	2.8

\* Beach as operator has declared the Canunda Liquids Discovery commercial and booked Canunda as 2P Reserves. Gaffney, Cline & Associates (GCA) as Drillsearch's independent reserves auditor is currently treating the Canunda discovery as 2C Contingent Resources until the field is put into production where upon GCA have indicated they would reclassify these hydrocarbons as 2P Reserves

Based on these well test results, the Company continues to review drilling locations in PEL 106. Our focus is on a forward program of appraisal drilling and testing of the existing discoveries as well as new exploration wells. Discussions are ongoing with our Joint Venture partner in PEL 106B, Beach Energy, to help firm up the drilling program.

Drillsearch announced during the quarter a significant increase in 2P Reserves for the Western Cooper Gas & Liquids Project, based on the advice from Beach Energy as Operator of PEL 106B. Beach advised that it considered the Middleton, Brownlow, Canunda and Udacha discoveries to be commercial and justified for development.

2010 Drillsearch 5-Year 2P/2C Reserves & Resources



Source: Drillsearch Energy Ltd

Following the completion of the annual review, independent expert Gaffney Cline and Associates (GCA) has estimated that the current discoveries in the Western Cooper Gas & Liquids Project collectively contain gross 2C Contingent Resources of 18.0 MMBOE. Drillsearch's net share of this totals 11.52 MMBOE.

The GCA annual review has established a significant increase in the Contingent Resources for the Western Cooper Gas & Liquids Project.

With respect to the Middleton, Brownlow, Canunda and Udacha Wet Gas Discoveries, GCA has estimated these discoveries contain 14.80 MMBOE gross and Drillsearch's share of these discoveries is approximately 8.15 MMBOE, of which 2.18 MMBOE are liquid hydrocarbons (condensate and LPG). These discoveries have all been classified as commercial by Beach Energy as Operator. Importantly, GCA have confirmed that these 2C Resources may move to Reserve status upon the establishment of a sales contract and associated field development plan which will continue to be progressed in the current quarter.

## Mature Oil Business

There was no drilling activity during the quarter in the Tintaburra Joint Venture (Drillsearch 11%). The Tintaburra Joint Venture has commenced processing 213 km<sup>2</sup> of 3D seismic around the Tintaburra and Tooboonyah fields, completing 3D coverage over all the producing fields in the Tintaburra Joint Venture area.

## Unconventional Gas Business

There were minimal activities on the unconventional resource evaluation of Drillsearch's Western Cooper-Eromanga Basin permit areas pending determination of the timing of future drilling in PEL 106.

## Financial Position

Drillsearch remains in a sound financial position. The cash balance at the end of December 2010 was \$9.1m, compared to \$4.7m in the previous quarter, with no debt. Actual cash payments for Australian exploration, appraisal and development expenditure for the December quarter were \$4.5m, compared to \$4.0m in the previous quarter.



Spencer field beam pump\_1

Source: Drillsearch Energy Ltd

## Corporate

### Portfolio Rationalisation

In keeping with the focus of the Company's activities in the Cooper-Eromanga Basin, the Company had a busy quarter announcing a number of acquisitions and divestments.

#### Scheme of Arrangement with Innamincka Petroleum Limited

On 14 December 2010, the Company announced that the requisite majority of Innamincka shareholders voting in favour of the Scheme of Arrangement was not achieved at the Innamincka Scheme Meeting. 96.86% of voting shareholders supported the Scheme, with a small number of key shareholders voting against the Merger.

While Drillsearch is disappointed by this outcome, it does not change our corporate strategy to remain focused on our four business streams in the Cooper-Eromanga Basin.

#### Acquisition of additional New Oil interests

On the 23<sup>rd</sup> December, the Company announced that it had acquired all of the remaining Queensland petroleum interests held by Bandanna Energy Ltd (ASX: BND) being interests in ATP 539P, ATP 549P West and PL18. The total consideration paid to acquire all of Bandanna's remaining interest was \$150,000.

### Canada

The company completed the sale of its 79.37% holding in the Canadian TSX Venture Exchange listed Circumpacific Energy Resources (CER) via a Plan of Arrangement Agreement to Western Petroleum Commodities, Inc. (WPC), a private Canadian oil & gas company.

Drillsearch's net receipts after sale of its 79.37% interest in CER and acquisition of the SW Queensland Blocks was \$5.9 million

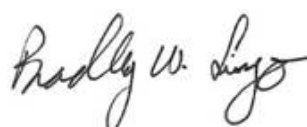
### Share Consolidation

At the Annual General Meeting held on 23<sup>rd</sup> November 2010, the shareholders of Drillsearch resolved that the issued capital in Drillsearch be consolidated on the basis that every 10 shares be consolidated into one share and that this would take effect on a date to be announced to the ASX in accordance with the Listing Rules. A timetable detailing the consolidation process was released to the ASX on 18<sup>th</sup> January 2011.

### Enhanced Technical Capability

After a global search, the Company appointed John McLean-Hodgson as Chief Geoscientist and Dr Ismail Mostafa as Chief Reservoir Engineer during the quarter. These two critical technical positions add considerable experience to the growing technical team at Drillsearch as the Company aggressively pursues exploration, appraisal and development of its significant Cooper-Eromanga Basin conventional and unconventional hydrocarbon holdings.

For further information please contact:



Brad Lingo  
Managing Director  
+612 9241 4440

Or visit the website [www.drillsearch.com.au](http://www.drillsearch.com.au)

### Competent Person Statement

The Reserves estimates used in this quarterly report were compiled by Mr David Evans, Chief Technical Officer of Drillsearch Energy Ltd who is a qualified person 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 report.