

29 August 2011

The Australian Securities Exchange (Sydney) Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Attention: Company Announcements Officer

Dear Sir / madam,

Audited 2011 full year result and preliminary final report

In accordance with ASX Listing Rule 4.3A, the following documents are attached for release to the market:

- Appendix 4E – Preliminary Financial Report
- Audited financial report for the year ending 30 June 2011

Yours faithfully,



Brad Lingo
Managing Director
61 2 9249 9600
admin@drillsearch.com.au

Or visit the website www.drillsearch.com.au
Media enquiries to: David Greer at Radar 02 8256 3333/3307.

If you would like to register for email alerts please go to the Register Page on our website.

RESULTS FOR THE YEAR ENDED 30 JUNE 2011

29 August 2011

Drillsearch Reports an Improved Financial Performance
Reduces net loss after tax to \$5.6 million (2010: net loss after tax \$24.8 million)

Highlights:

\$50 million cash balance

As at 30 June 2011, Drillsearch had a strong financial position and robust balance sheet with no debt. Primarily due to the support received during the \$48 million capital raising in May 2011, Drillsearch has a fully funded exploration and development program and the ability to capitalise on the opportunities for growth.

887% uplift in 2P Reserves

Announced in May 2011, Drillsearch has a 2P gas and liquids Reserves of 8.49MMboe representing a significant increase in commercial Reserves. These figures do not include recent discoveries made in PEL 91 with significant additional Reserves likely to be added. The Company is focused on the development of these Reserves and the near-term production potential of its commercial discoveries.

Four from five

Drillsearch's PEL 91 in the Western Flank Oil Fairway has delivered four new oil discoveries from five wells drilled as part of its five well exploration campaign. The Company also has imminent production from its Wet Gas Pilot Project at PEL 106B alongside strong production from its existing oil-producing assets.

\$130 million strategic JV

Announced post 30 June 2011, Drillsearch has formed a strategic joint venture with QGC, a BG Group company, to explore and develop unconventional shale and tight gas resources in ATP 940P in the Cooper Basin. The strategic partnership with a global energy company validates the potential of Drillsearch's unconventional acreage.

Strategy

Drillsearch remains focused on:

- **Developing** its oil and gas discoveries in the Western Cooper Basin
- **Exploring** its Cooper Basin Western Flank Oil Fairway acreage
- **Appraising** the significant unconventional gas potential in Cooper Basin acreage
- **Rationalising** its portfolio to divest or farm-out non-core assets

Our goal is to:

- Increase **Reserves**
- Increase **Production**
- Increase **Cash Flow**

Results in brief

The gross loss for the year of the consolidated group was \$1.3 million (2010: gross loss \$1.7 million). This improvement in gross loss was largely driven by a 136% increase in revenues as a result of Chiton Oil production.

The consolidated group result attributable to equity holders of the parent after providing for income tax and eliminating minority equity interests amounted to a loss of \$5.5 million (2010: loss \$24.6 million).

The net assets of the consolidated group have increased by \$44.2 million (an increase of 67%) from 30 June 2010 to \$110.0 million (2010: \$65.7 million). This increase is largely the result of the \$48 million equity capital raising undertaken during the period.

Working capital increased during the year by \$37.6 million to \$50.9 million (2010: \$13.3 million) due largely to the \$48 million equity capital raising undertaken during the 12 months to 30 June 2011. This also resulted in a strong increase in cash as at 30 June 2011 to \$50.3 million (2010: \$4.4 million).

Competent Person Statement

Information on the Reserves and Resources in this report is based on information provided by Joint Venture Operators and compiled by Mr. David Evans, Chief Technical Officer and a full time employee of Drillsearch who has given his consent as of the date of this report to the inclusion of this statement and the information in the form and the context in which they appear in this release.

Annual General Meeting

Notice is hereby given that the Annual General Meeting will be held at Museum of Sydney (AGL Theatre, level 2), Corner of Phillip and Bridge Streets, Sydney NSW on 23 November 2011, commencing at 10:00 am.

For further information please contact



Brad Lingo

Managing Director

61 2 9249 9600

admin@drillsearch.com.au

Or visit the website www.drillsearch.com.au

Media enquiries to: David Greer at Radar 02 8256 3333/3307.

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About Drillsearch Energy Limited (ASX: DLS), which listed on ASX in 1987, explores and develops conventional and unconventional oil and gas projects. Drillsearch has a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper-Eromanga Basins in South Australia and Queensland. The company's focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, ensuring that any discoveries can be brought into production.

APPENDIX 4E
Preliminary final report
Period ending 30 June 2011
 Previous corresponding period: 30 June 2010

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information

			\$
Revenues from ordinary activities	Increased	136% to	14,436,289
Loss from continuing operations after tax attributable to members	Decreased	73% to	(6,567,771)
Net Loss for the period attributable to members	Decreased	77% to	(5,633,969)

Dividends

It is not proposed to pay any dividends.

Net Tangible Assets

	Current period	Previous Period
Net tangible asset backing per ordinary security (cents)	36.15	32.42
Basic earnings / (loss) per share (cents) from continuing and discontinued operations	(2.671)	(12.695)

Details of individual and total dividends or distributions and dividends or distribution payments

There were no distributions or dividends payable or paid during the period.

Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for the participation in any dividends or distribution reinvestment plan.

There were no dividend or distribution reinvestment plans in operation.

Material interest in entities which are not controlled entities

There are no material interests in entities which are not controlled entities.

This information should be read in conjunction with the Directors' report and the full year financial statements for the period. This report is unaudited.



Drillsearch Energy Limited

ABN 73 006 474 844

Annual financial report for the financial year ended 30 June 2011

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Directors' Report

The directors of Drillsearch Energy Limited ('Drillsearch' or the 'Company') submit herewith the annual report of the company for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors and senior management

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
Mr J.D. McKerlie	Chairman, Chartered Accountant, joined the Board in 2008 in a non-executive capacity. Appointed Chairman 11 June 2009. Bachelor of Economics, Diploma Financial Management, University of New England, Fellow Institute of Chartered Accountants. FAICD. Mr J.D. McKerlie is also the Chairman of Onthehouse Holdings Limited. He is the Chairman of the remuneration and nomination committee and a member of the audit and risk committee and technical committee.
Mr B.W. Lingo	Non-executive Director from 19 May 2009. Appointed Managing Director 15 June 2009. Mr B.W. Lingo is a member of the technical committee.
Mr B.K. Choo	Non-executive Director. Dato' Choo is a Malaysian national with extensive business interests in Malaysia through his role as Group Managing Director of Masmeyer Holdings Sdn Bhd. Appointed 2 March 2009.
Mrs F.A. Robertson	Non-executive Director. Master of Arts, Oxford University UK, FAICD, MAusIMM. Appointed 6 October 2009. Mrs F.A. Robertson is the Chairman of the audit and risk committee and a member of the remuneration and nomination committee.
Mr H.R.B. Wecker	Non-executive Director. Bachelor of Science (Met and Geol) Queensland University. Mr. Wecker served as the Managing Director of Innamincka Petroleum Ltd. from 6 November 2003 to 30 March 2009. Appointed 6 October 2009. Mr H.R.B Wecker is Chairman of the technical committee and a member of the remuneration and nomination committee and audit and risk committee.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Mr J.D. McKerlie	Great Artesian Oil & Gas Limited	12 September 2007 to 12 August 2008
	Circumpacific Energy Corporation	26 November 2009 to 25 November 2010
	Onthehouse Holdings Limited	1 January 2011 to present
Mr B.W. Lingo	Circumpacific Energy Corporation	26 November 2009 to 25 November 2010
Mr B.K. Choo	Republic Gold Limited	28 May 2008 to 20 August 2010
Mrs F.A. Robertson	Nil	Nil
Mr H.R.B. Wecker	Innamincka Petroleum Limited	6 November 2003 to 30 March 2009

Directors' shareholdings

The following table sets out each Director's relevant interest in shares and options in shares of the Company or a related body corporate as at the date of this report.

Directors	Drillsearch Energy Limited	
	Fully paid ordinary shares Number	Share options Number
Mr J.D. McKerlie	521,150	2,142,742
Mr B.W. Lingo	106,375	1,542,742
Mr B.K. Choo	2,167,550	971,371
Mrs F.A. Robertson	84,500	971,371
Mr H.R.B. Wecker	34,500	971,371

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 11 to 16.

Share options granted to directors and senior management

During and since the end of the financial year an aggregate 2,670,233 share options were granted to the following directors and senior management of the company as part of their remuneration.

Directors and senior management	Issuing entity	Number of options granted	Number of options cancelled	Number of ordinary shares under option
Mr J.D. McKerlie	Drillsearch Energy Limited	342,742	-	342,742
Mr B.W. Lingo	Drillsearch Energy Limited	342,742	-	342,742
Mr B.K. Choo	Drillsearch Energy Limited	171,371	-	171,371
Mrs F.A. Robertson	Drillsearch Energy Limited	171,371	-	171,371
Mr H.R.B. Wecker	Drillsearch Energy Limited	171,371	-	171,371
Mr J.S. Whaley	Drillsearch Energy Limited	539,683	-	539,683
Mr D. Evans	Drillsearch Energy Limited	539,683	-	539,683
Mr I.W. Bucknell	Drillsearch Energy Limited	391,270	-	391,270
		2,670,233	-	2,670,233

Company secretary

Ms J. Moore held the position of company secretary of Drillsearch Energy Limited at the end of the financial year. She joined Drillsearch Energy Limited in November 2009 as assistant Company Secretary and was appointed Company Secretary on 17 November 2010. She holds a Juris Doctor from the University of Toronto and has completed the Chartered Secretaries Australia's Graduate Diploma in Applied Corporate Governance.

Mr I.W. Bucknell, Certified Practising Accountant, held the position of company secretary for the period 1 July 2010 to 17 November 2010 and was re-appointed as a second company secretary subsequent to the end of the financial year on 26 July 2011. He joined Drillsearch Energy Limited in August 2008 and previously held the company secretary position at Great Artesian Oil and Gas Limited.

Principal activities

The consolidated entity's principal activities in the course of the financial year were oil and gas exploration, development and production. The company divides these activities into three business streams: Oil; Wet Gas; and Unconventional.

No significant change in the nature of these activities occurred during the financial year.

Operating results

The gross loss for the year of the consolidated group was \$1,296,230 (2010: gross loss \$1,715,933). This reduction in gross loss was largely driven by a 136% increase in revenues as a result of both a reweighting to new higher margin oil production from the Chiton oil field and higher realised oil prices.

The consolidated group result attributable to equity holders of the parent after providing for income tax and eliminating minority equity interests amounted to a loss of \$5,518,563 (2010: loss \$24,604,908).

The tables below set out summary information about the consolidated entity's earnings including earnings from discontinued operations and movement in shareholder wealth for the five year to 30 June 2011:

	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
	\$	\$	\$	\$	\$
Revenue	15,579,057	9,235,826	15,628,441	24,138,210	15,536,753
Net profit / (loss) before tax	(6,083,618)	(24,792,514)	(9,369,936)	(13,676,468)	3,227,616
Net profit / (loss) after tax	(5,633,969)	(24,758,052)	(9,486,380)	(13,467,387)	3,238,392
	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Share price at start of year	\$0.51	\$0.30	\$0.58	\$1.90	\$1.50
Share price at end of year	\$0.395	\$0.51	\$0.30	\$0.58	\$1.90
Basic earnings per share	(2.6707)cps	(12.695)cps	(5.884)cps	(21.2)cps	7.4cps
Diluted earnings per share	(2.6707)cps	(12.695)cps	(5.884)cps	(21.2)cps	7.4cps

Review of operations

A summary of consolidated revenues and results of significant segments is set out in note 5 of the financial report.

Significant events which occurred during the year under review included:

Oil Business

The company continued a program of reviewing its acreage position within this business stream. The company's 2% interest in the Naccowlah Block Joint Venture (ATP 259P) was sold to Bounty Oil & Gas NL with the sale completed in January 2011. Drillsearch strengthened its position within the Inland Cook Oil Fairway in South West Queensland when it acquired all of Bandanna Energy Limited's remaining Queensland permit interests in ATP539P, ATP549P West and PL18.

In May 2011, a 5 well drilling campaign commenced in the company's PEL91 permit in the Western Flank Oil Fairway. The first two wells, Snellings and Hanson, were completed during the financial year ended 30 June 2011 with both classed as oil discoveries and cased and suspended as future oil producers.

Wet Gas Business

In early July 2010, preliminary testing results for the Canunda Wet Gas discovery in PEL 106B were announced. The Canunda production test of the upper most zone produced exceptionally high levels of condensate or light oil. Additional Wet Gas Reserves were acquired from Traditional Oil Pty Ltd in four discoveries for \$1.3 million in Drillsearch stock. In May 2011, Gaffney Cline and Associates (GCA), independent reserve auditors, confirmed that plans for the commercial development of the Brownlow, Canunda, Middleton and Udacha Wet Gas discoveries had progressed to the point that allowed Drillsearch to upgrade

Review of operations (continued)

Contingent Resources to Reserves. This led to the announcement by Drillsearch in May of 2011 of an 887% increase in 2P Reserves.

Unconventional Business

Significant progress was made in the process to mature, through to award, the eight South West Queensland ATP blocks. Negotiations with the Boonthamurra, Kullilli, Mithaka and Wongkamurra traditional owners were completed. With Native Title Agreements and the Cultural Heritage Management Plan Agreements negotiated, the completion of the process including a formal offer of the ATP exploration licences is expected to occur in the December quarter 2011.

The company was encouraged by the performance of companies operating in neighbouring permits within the Cooper-Eromanga Shale gas acreage, in particular the results announced by Beach Energy with regard to the testing of their Holdfast well in PEL 218 which borders Drillsearch's ATP 940P permit to the north-west.

Corporate

The company continued with its divestment program of non Cooper-Eromanga Basin assets. In November the company completed the sale via a plan of arrangement of its 79.37% stake in TSX.V listed Circumpacific Energy Corporation (Circumpacific) to Western Petroleum Commodities Inc and as part of the arrangement purchased from Circumpacific its interest in the eight exploration tenements known as the South West Queensland Blocks. In February 2011, the company announced the sale of its three Gippsland Basin Permits being VIC/P63, VIC/P64 and T/46P to Larus Energy Pty Limited.

The company announced in October 2010, that it had secured a \$15 million equity credit facility with US-based investment fund YA Global Master SPV Ltd. An equity capital raising was announced in May 2011 with gross proceeds of approximately \$48 million.

During the financial year, the company completed a 1 for 10 share consolidation in early February 2011 and was unsuccessful in its merger via a friendly scheme of arrangement with Innamincka Petroleum Limited.

Financial position

The net assets of the consolidated group have increased by \$44,208,314 from 30 June 2010 to \$109,957,995 (2010: \$65,749,681). This increase is largely the result of a \$48.1 million equity capital raising undertaken during the period.

Working capital increased during the year by \$37,592,153 (2010: \$4,275,025) due largely to the \$48.1 million equity capital raising undertaken during the period. Cash and bank balances at year end increased to \$50,258,603 (2010: \$4,361,222).

Changes in state of affairs

During the financial year, the consolidated entity disposed of its 79.37% interest in Circumpacific Energy Corporation, a TSX.V listed Canadian business.

Other than the above, there was no significant change in the state of affairs of the consolidated entity during the financial year.

Subsequent events

Subsequent to balance date the following material events have occurred:

- On 19 July 2011, the company announced a new oil field discovery at Arno-1 in PEL 91 on the Western Flank Oil Fairway. The Arno-1 exploration well has discovered significant oil pay zones in McKinlay, Namur and Birkhead reservoirs. Additional testing and evaluation of the McKinlay-Namur and Birkhead Formation pay zones is required to estimate ultimate recoveries.
- On 25 July 2011, the company announced the grant of options to employees.
- On 26 July 2011, the company appointed Mr I.W. Bucknell as a second company secretary.
- On 27 July 2011, Drillsearch announced a \$130m strategic joint venture with global energy company BG Group PLC to explore and develop shale gas in the ATP940 permit, in the Cooper Basin. Under the Joint Venture, QGC Pty Limited (QGC) (a 100% BG Group subsidiary) agreed to acquire a 60% interest in ATP 940P. QGC will fund \$90.0 m of the first \$100.0 m of the five well exploration, appraisal and pilot production program and thereafter QGC and the Company will fund the program on 60:40 basis. In addition, QGC was issued 31.6 million Drillsearch share options (approximately 9.9% of company) at a strike price of 62 cents per share.
- On 1 August 2011, the company announced a new 2 million barrel oil field discovery at Bauer-1. Beach Energy Limited (the operator) advised that the preliminary volumetric assessment suggests Reserves of up to 2 million barrels of gross recoverable oil.
- On 19 August 2011, the company announced that following evaluation of the results from wire line logs at Searcy-1 that the well was not commercial and would be plugged and abandoned.

Future developments

In May 2010 Drillsearch announced its intention to raise \$48 million dollars in equity capital. The capital raising presentation disclosed information regarding likely developments in the operations of the consolidated entity in future financial years. This information is summarised below by business stream:

Oil Business

- \$22.6 million was targeted to continued exploration and development of PEL91. These funds have been earmarked for the expenditure on up to 12 wells and two seismic acquisition surveys.
- Initial production from the first of the drilling successes made in the stage 1 wells is anticipated to begin in the fourth quarter of 2011.
- An additional \$5.0 million was earmarked to acquire seismic in the Inland Cook Oil Fairway.

Wet Gas Business

- \$13.1 million was allocated for the wet gas pilot project in PEL106B. These funds cover the tie in expenditures to connect four existing Drillsearch Wet Gas discoveries (Middleton, Brownlow, Udacha and Canunda) to the South Australian Cooper Basin Joint Venture pipeline infrastructure. Also included are up to 5 development wells to ensure deliverability of gas. First production from the wet gas pilot project is expected in the fourth quarter of 2011.
- An additional \$10.2 million was for the development and exploration of PEL106A and PEL07. These funds include expenditures for the extended production testing of Paprika, reinstatement or side tracking of Smegsy and drilling 2 wells in PEL106A and 1 well in PEL107.

Future developments (continued)

Unconventional Business

- \$2.4 million in funds were set aside for coal coring each of the 8 planned wet gas conventional wells to appraise their unconventional gas potential. These funds also included permit award cost for ATP940P.

Environmental regulations

The parent entity is subject to significant environmental regulation in respect of its operated and non-operated Joint Venture interests in petroleum exploration, development and production. Its oil production interests in the state of Queensland are operated by Santos Limited, which complies with all relevant environmental legislation. Its oil production interests in the state of South Australia are operated by Beach Energy Limited, which complies with all relevant environmental legislation. Its other exploration operations in South Australia and Queensland are operated by the parent entity and it complies with all relevant environmental legislation.

Dividends

During the year no dividends were paid. No dividend is proposed for the current year.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing Entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Drillsearch Energy Limited	31,622,454	Ordinary	\$0.62	15 February 2012
Drillsearch Energy Limited	150,000	Ordinary	\$0.40	12 August 2012
Drillsearch Energy Limited	1,400,000	Ordinary	\$0.50	28 November 2012
Drillsearch Energy Limited	200,000	Ordinary	\$0.85	2 March 2013
Drillsearch Energy Limited	1,200,000	Ordinary	\$0.40	10 November 2013
Drillsearch Energy Limited	3,600,000	Ordinary	\$0.73	30 November 2013
Drillsearch Energy Limited	1,000,000	Ordinary	\$0.63	30 September 2014
Drillsearch Energy Limited	1,000,000	Ordinary	\$0.88	15 March 2015
Drillsearch Energy Limited	500,000	Ordinary	\$0.58	3 January 2016
Drillsearch Energy Limited	500,000	Ordinary	\$0.64	23 January 2016
Drillsearch Energy Limited	500,000	Ordinary	\$0.61	25 July 2016
Drillsearch Energy Limited	1,199,597	Ordinary	\$0.62	20 June 2018
Drillsearch Energy Limited	2,992,383	Ordinary	\$0.62	25 July 2018

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the company or of any other body corporate or registered scheme.

Details of shares or interests issued since the end of the financial year as a result of exercise of options are:

Issuing Entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Drillsearch Energy Limited	1,000,000	Ordinary	\$0.50	\$nil

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, Ms J. Moore, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (whilst they were a director or committee member). During the financial year, 21 board meetings, 9 remuneration and nomination committee meetings, 4 audit and risk committee meetings and 5 technical committee meetings were held.

Directors	Board of directors		Remuneration & Nomination committee		Audit & risk committee		Technical committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr J.D. McKerlie	21	21	9	9	4	4	5	5
Mr B.W. Lingo	21	21	n/a	n/a	n/a	n/a	5	5
Mr B.K. Choo	21	18	n/a	n/a	n/a	n/a	n/a	n/a
Mrs F.A. Robertson	21	21	9	9	4	4	n/a	n/a
Mr H.R.B. Wecker	21	21	9	9	4	4	5	5

Legal matters

Drillsearch has been involved in legal proceedings during the year (see note 25 to the financial report) including those detailed below:

- Drillsearch was involved in legal proceedings commenced in the Supreme Court of New South Wales, concerning a claim by Carling Capital Partners for advisory fees. On 29 July 2010, these proceedings were resolved.
- On 12 May 2009, Odin Energy Limited (Odin) announced that it had added Great Artesian Oil and Gas Limited (Great Artesian), a subsidiary of Drillsearch, to legal proceedings brought by Odin against Kompliment Pty Limited (Kompliment) and its holding company, Blue Energy Limited, (Blue Energy) relating to the termination of a sub-farmin agreement between those parties, and loss and damage Odin claims to have suffered in the circumstances of that agreement. Odin is claiming damages from Kompliment and Blue Energy in the amount of approximately \$4.5 million. As part of the proceedings, it is alleged that heads of agreement between Great Artesian, Kompliment and Blue Energy have terminated. The proceedings therefore essentially involve a dispute between a farminee (Kompliment) and sub farminee (Odin), and no claim for damages is made against Great Artesian. Great Artesian has filed its defence, provided discovery and participated in mediation sessions involving all parties to the proceedings. Attempts to resolve the matter at mediation were unsuccessful. The matter returned to an active footing in April 2011 and orders have now been made for the filing and service of witness statements. Great Artesian has filed an application to challenge those parts of Odin's pleadings that involve

Legal matters (continued)

Great Artesian and to seek security for its costs in the event that Odin is ultimately unsuccessful at trial.

There is no other litigation of a material nature against Drillsearch or its subsidiaries of which the Directors are aware.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 32 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 32 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 17 of the annual report.

Remuneration Report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Drillsearch Energy Limited's directors and its senior management for the financial year ended 30 June 2011. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director and senior management details
- Remuneration policy
- Non-executive directors
- Senior management
- Remuneration of directors and senior management
- Key terms of employment contracts.

Director and senior management details

The following persons acted as directors of the company during or since the end of the financial year:

- Mr J.D. McKerlie (Chairman)
- Mr B.W. Lingo (Managing Director)
- Mr B.K. Choo
- Mrs F.A. Robertson
- Mr H.R.B. Wecker.

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Mr J.S. Whaley (Chief Strategy and Development Officer)
- Mr D. Evans (Chief Technical Officer)
- Mr I.W. Bucknell (Chief Financial Officer).

The company does not consider other executives to be Key Management Personnel.

Remuneration policy

The goals of the company's remuneration policy are to:

- Ensure that directors and senior managers are broadly paid at market median levels on their fixed remuneration.
- Provide opportunity for employees who perform well to be well rewarded through an annual cash short term incentive plan.
- To get alignment between shareholder value and employee value by participation of directors and employees in the company's long term incentive plan.

Drillsearch has developed this structured remuneration framework based upon advice from external remuneration consultants.

Non-executive directors

Non-executive directors are remunerated through:

- A base fee inclusive of superannuation; and
- Long term incentives.

The base fee for non-executive directors is benchmarked against a pool of comparable companies and reviewed on an annual basis. Remuneration is determined by the remuneration and nomination committee with reference to these benchmarks and takes into consideration the need to obtain appropriately qualified independent directors.

Non-executive directors (continued)

Remuneration of the non-executive directors is approved by the board. The base fee is set in aggregate within the maximum amount approved by the shareholders. The aggregate pool of base remuneration approved by shareholders on 27 November 2009 was \$400,000. The amount of base fee paid to non-executive directors during the year to 30 June 2011 was \$229,359.

The long term incentives (LTI) are based off the award for the managing director. The chairman receives the same LTI as the managing director, whilst the other non-executive directors receive fifty percent of the LTI granted to the managing director each year. All LTI awards are subject to shareholder approval.

Senior management

Senior management are remunerated through:

- A base fee inclusive of superannuation;
- Short term incentives; and
- Long term incentives.

The combination of these is considered to be the total remuneration for each senior team member. All employees are classified into a job band and the mix of remuneration between base pay, short term incentives and long term incentives is applied within the framework of the job band.

A set of group Key Performance Indicators (KPI) was developed for all staff in the financial year ended 30 June 2011. These KPI's were focused in the following areas:

- HSE performance targets
- Increased Reserve targets
- Market performance to peers
- Company share price appreciation targets

Each employee's performance was then assessed with reference to both the company's performance against the above group KPI's and the individual's performance against their own personal KPI's.

Base fee inclusive of superannuation

Fixed remuneration is determined by reference to appropriate benchmark information, taking into account an individual's responsibilities, performance, qualifications and experience. The broad objective is to pitch fixed remuneration at market median levels. The benchmark used in relation to the year ended 30 June 2011 was the National Rewards Group (NRG) survey. This survey included data from 41 companies who contribute to the hydrocarbon sector of the survey.

Short term incentives (Bonus)

Following a review of the company's Short Term Incentive (STI) program, and further to advice being obtained from external remuneration consultants, the board determined to broaden the STI program from just the executives to a number of high performing staff during the 2011 financial year. The program has been extended to all staff in the 2012 financial year. An annual performance review is conducted for every employee and performance against key individual and team objectives is assessed. The remuneration and nomination committee reviews management's recommendations relating to the performance of each individual against these objectives to determine the level of STI award. Short term incentives are awarded by way of cash payments.

Senior management (continued)

Long term incentives

The board, with advice from external remuneration consultants, sought and obtained shareholder approval to implement a Long Term Incentive Plan (LTIP) for employees and directors of the consolidated entity. The purpose of the plan is to reward, retain and encourage employees and directors of the company by giving them an opportunity to be granted options which entitle them to be issued shares in the company upon satisfaction of certain performance conditions.

The board believes that it is in the best interests of the company to align the interests of employees and directors with the performance of the company, to incentivise employees and directors and to minimise cash expenditure on incentive based remuneration.

Remuneration of directors and senior management

	Short-term employee benefits				Post employment benefits	Other long-term employee benefits	Share-based payment	Total
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation		Options	
2011	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
Mr J.D. McKerlie	91,743	-	-	4,234	8,257	-	704	104,938
Mr B.K. Choo	45,872	-	-	-	4,128	-	352	50,352
Mrs F.A. Robertson	45,872	-	-	-	4,128	-	352	50,352
Mr H.R.B. Wecker	45,872	-	-	-	4,128	-	352	50,352
Executive officers								
Mr B.W. Lingo	413,629	94,960	-	-	15,199	-	704	524,492
Mr J.S. Whaley	332,788	67,403	-	-	15,199	-	-	415,390
Mr D. Evans	282,408	53,159	-	15,000	18,583	-	-	369,150
Mr I.W. Bucknell	237,278	57,156	-	-	17,191	-	-	311,625
	1,495,462	272,678	-	19,234	86,813	-	2,464	1,876,651
2010	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
Mr J.D. McKerlie	88,381	-	-	22,282	7,954	-	619,200	737,817
Mr B.K. Choo	47,664	-	-	-	2,336	-	412,800	462,800
Mr P.A. Wicks	10,252	-	-	-	-	-	-	10,252
Mrs F.A. Robertson	34,404	-	-	-	3,096	-	264,000	301,500
Mr H.R.B. Wecker	34,404	-	-	-	3,096	-	264,000	301,500
Executive officers								
Mr B.W. Lingo	357,056	-	-	22,282	21,642	-	182,400	583,380
Mr J.S. Whaley	190,348	-	-	-	12,151	-	402,000	604,499
Mr D. Evans	76,264	-	-	-	4,916	-	384,700	465,880
Mr I.W. Bucknell	224,219	-	-	-	16,194	-	74,000	314,413
Mr C.J. Carty	205,161	-	-	22,282	18,465	-	-	245,908
	1,268,153	-	-	66,846	89,850	-	2,603,100	4,027,949

Share based payment shown for the 2011 financial year above; include pro-rata cost for the period from date of grant to the end of financial year only (10 days). This is a result of the three year vesting period on the options with the full value of the options vesting

Remuneration of directors and senior management (continued)

progressively over the vesting period. The 2010 share based payment vested immediately and as such was fully recognised in that period.

No director or senior management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

Bonuses and share-based payments granted as compensation for the current financial year

Bonuses

The following bonuses were granted as compensation for the 2011 financial year: Mr B.W. Lingo was granted a cash bonus of \$49,088 (inclusive of superannuation); Mr J.S Whaley was granted a cash bonus of \$35,820 (inclusive of superannuation); Mr D. Evans was granted a cash bonus of \$34,650 (inclusive of superannuation); and Mr I.W. Bucknell was granted a cash bonus of \$22,133 (inclusive of superannuation).

The following bonuses were granted as compensation for the 2010 financial year: Mr B.W. Lingo was granted a cash bonus of \$45,872 (inclusive of superannuation); Mr J.S Whaley was granted a cash bonus of \$24,083 (inclusive of superannuation); Mr D. Evans was granted a cash bonus of \$11,009 (inclusive of superannuation); and Mr I.W. Bucknell was granted a cash bonus of \$27,523 (inclusive of superannuation).

The following bonuses were given as recognition of the efforts of each of the named parties in merger activities between Drillsearch and Innamincka Petroleum Limited: Mr J.S Whaley was granted a cash bonus of \$7,500 (inclusive of superannuation); Mr D. Evans was granted a cash bonus of \$7,500 (inclusive of superannuation); and Mr I.W. Bucknell was granted a cash bonus of \$7,500 (inclusive of superannuation).

No other bonuses were granted during 2011.

Share-based payments

During the financial year, the following share-based payment arrangements were in existence:

Options series	Grant date	Expiry date	Grant date fair value	Vesting date
(8) Issued 28 November 2008	12/08/08	12/08/12	\$0.2892	Vests at date of grant
(9) Issued 28 November 2008	28/11/08	28/11/12	\$0.1413	Vests at date of grant
(10) Issued 11 November 2009	15/06/09	10/11/13	\$0.1520	Vests at date of grant
(11) Issued 1 December 2009	6/10/09	30/11/13	\$0.3300	Vests at date of grant
(12) Issued 1 December 2009	4/12/09	30/11/13	\$0.5160	Vests at date of grant
(13) Issued 1 December 2009	1/10/09	30/09/14	\$0.4020	Vests at date of grant
(14) Issued 3 March 2010	3/03/10	2/03/13	\$0.3700	Vests at date of grant
(15) Issued 16 March 2010	16/03/10	15/03/15	\$0.3847	Vests at date of grant
(16) Issued 28 July 2010	28/07/10	29/10/10	\$0.2321	Vests at date of grant
(17) Issued 28 July 2010	28/07/10	31/01/11	\$0.2699	Vests at date of grant
(18) Issued 28 July 2010	28/07/10	29/07/11	\$0.3232	Vests at date of grant
(19) Issued 9 March 2011	9/03/11	3/01/16	\$0.4345	Vests at date of grant
(20) Issued 9 March 2011	9/03/11	23/01/16	\$0.4263	Vests at date of grant
(21) Issued 20 June 2011	20/06/11	20/06/18	\$0.3513	Vests 20 June 2014 if performance hurdles are met

There are no further services or performance criteria that need to be met in relation to options granted under series (8) to (20) before the beneficial interest vests in the recipient.

Remuneration of directors and senior management (continued)

Share-based payments (continued)

Directors receiving options under option series (21) are entitled to the beneficial interest under the option when prescribed performance conditions are met. 75% of the grant of options will be exercisable according to the achievement of specified share price growth and 25% of the grant of options will be according to a percentage rating of the company share price in comparison to comparable companies. These options have a three year vesting period.

The following grants of share-based payment compensation to directors and senior management relate to the current financial year:

Name	Option series	During the financial year				% of compensation for the year
		No. granted	No. vested	% of grant vested	% of grant forfeited	
Mr J.D. McKerlie	(21) Issued 20 June 2011	342,742	nil	nil	nil	0.7%
Mr B.W. Lingo	(21) Issued 20 June 2011	342,742	nil	nil	nil	0.1%
Mr B.K. Choo	(21) Issued 20 June 2011	171,371	nil	nil	nil	0.7%
Mrs F.A. Robertson	(21) Issued 20 June 2011	171,371	nil	nil	nil	0.7%
Mr H.R.B. Wecker	(21) Issued 20 June 2011	171,371	nil	nil	nil	0.7%
		1,199,597	-			

During the year, no directors or senior management exercised options that were granted to them as part of their compensation.

The following table summarises the value of options granted, exercised or lapsed during the year to directors and senior management:

Name	Value of options granted at the grant date (i) \$	Value of options exercised at the exercise date \$	Value of options lapsed at the date of lapse (ii) \$
Mr J.D. McKerlie	120,388	-	-
Mr B.L. Lingo	120,388	-	-
Mr B.K. Choo	60,194	-	-
Mrs F.A. Robertson	60,194	-	-
Mr H.R.B. Wecker	60,194	-	-

- I. The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.
- II. The value of options lapsing during the period due to the failure to satisfy a vesting condition is determined assuming the vesting condition had been satisfied.

Key terms of employment contracts

Mr B.W. Lingo – Managing Director

Mr B.W. Lingo provides services under a three year contract from 15 June 2009 to 1 July 2012. The base remuneration inclusive of superannuation for the year ended 30 June 2011 under the contract is \$425,000. Mr B.W. Lingo's remuneration level is subject to annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Mr B.W. Lingo is eligible to receive up to 20% of his base salary by way of short term incentives and up to 30% of his base salary as share options by way of long term incentives.

The company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The managing director can resign by giving two months notice. The company can terminate the contract by giving six months notice.

Key terms of employment contracts (continued)

Mr J.S. Whaley - Chief Strategy and Development Officer

Mr J.S. Whaley provides services under a three year contract from 1 October 2009 to 30 September 2012. The base remuneration inclusive of superannuation for the year ended 30 June 2011 under the contract is \$360,000. Mr. J.S. Whaley's remuneration level is subject to annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Mr J.S. Whaley is eligible to receive up to 20% of his base salary by way of short term incentives and up to 30% of his base salary as share options by way of long term incentives.

The company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The chief strategy and development officer can resign by giving two months notice. The company can terminate the contract by giving six months notice.

Mr D. Evans - Chief Technical Officer

Mr D. Evans provides services under a three year contract from 15 March 2010 to 14 March 2013. The base remuneration inclusive of superannuation for the year ended 30 June 2011 under the contract is \$300,000. Mr. D. Evans remuneration level is subject to annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Mr D. Evans is eligible to receive up to 20% of his base salary by way of short term incentives and up to 30% of his base salary as share options by way of long term incentives.

The company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The chief technical officer can resign by giving two months notice. The company can terminate the contract by giving twelve months notice.

Mr I.W. Bucknell – Chief Financial Officer

Mr I.W. Bucknell provides services as a permanent employee of Drillsearch. The base remuneration inclusive of superannuation for the year ended 30 June 2011 under the contract is \$250,000. Mr. I.W. Bucknell's remuneration level is subject to annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Mr I.W. Bucknell is eligible to receive up to 20% of his base salary by way of short term incentives and up to 30% of his base salary as share options by way of long term incentives.

The company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The chief financial officer can resign by giving three months notice. The company can terminate the contract by giving three months notice.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



J.D. McKerlie
Chairman
Sydney, 29 August 2011

The Board of Directors
Drillsearch Energy Limited
Level 16, 55 Clarence Street
SYDNEY NSW 2000

29 August 2011

Dear Board Members

Drillsearch Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Drillsearch Energy Limited.

As lead audit partner for the audit of the financial statements of Drillsearch Energy Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants

Independent Auditor's Report to the members of Drillsearch Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Drillsearch Energy Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 25 to 72.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Drillsearch Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Drillsearch Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Drillsearch Energy Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Sydney, 29 August 2011

Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3 to the financial statements; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



J.D. McKerlie
Chairman
Sydney, 29 August 2011

Consolidated statement of comprehensive income for the year ended 30 June 2011

	Notes	Financial Year ended	
		30-Jun-11	30-Jun-10
		\$	\$
Continuing operations			
Revenue	6	14,436,289	6,109,331
Changes in inventories		(2,959,664)	234,188
Direct operating expense		(5,057,506)	(3,262,477)
Employee benefits expense		(3,884,047)	(2,018,904)
Amortisation expense	19	(3,695,414)	(2,676,629)
Depreciation expense	20	(135,888)	(101,442)
Gross loss		(1,296,230)	(1,715,933)
Investment revenue	7	317,806	311,243
Other gains	8	1,372,947	204,581
Share based payments expense	29	(1,258,048)	(2,603,100)
Exploration and evaluation costs expensed	18	(2,793,096)	(3,754,543)
Impairment of oil and gas assets	19	-	(11,266,946)
Finance income/(costs)	9	202,404	(433,396)
Corporate activity costs	13b	(1,783,515)	(984,228)
General legal and professional costs		(216,103)	(2,017,957)
Foreign exchange (loss)/gains	8	(743,544)	46,528
Loss on investment	13b	(72,017)	(60,002)
Other expenses	13a	(3,328,352)	(2,157,889)
Recharge and recoveries		2,580,328	381,462
Loss before tax		(7,017,420)	(24,050,180)
Income tax benefit	10	449,649	34,462
Loss for the year from continuing operations		(6,567,771)	(24,015,718)
Discontinued Operations			
Profit/(loss) from the year from discontinued operations	11	933,802	(742,334)
LOSS FOR THE YEAR		(5,633,969)	(24,758,052)
Other comprehensive income			
Exchange differences arising on translation of foreign operations			
Exchange differences arising during the year		(367,122)	324,847
Reclassification adjustments relating to foreign operations disposed of		874,573	-
Reclassification of general reserve on disposal of foreign operation		2,432,040	-
Other comprehensive income for the year, net of tax		2,939,491	324,847
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(2,694,478)	(24,433,205)
Loss attributable to:			
Owners of the parent		(5,518,563)	(24,604,908)
Non-controlling interests		(115,406)	(153,144)
		(5,633,969)	(24,758,052)
Total comprehensive income attributable to:			
Owners of the parent		(2,579,072)	(24,280,061)
Non-controlling interests		(115,406)	(153,144)
		(2,694,478)	(24,433,205)
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	14	(2.6707)	(12.6950)
Diluted (cents per share)		(2.6707)	(12.6950)
From continuing operations			
Basic (cents per share)	14	(3.1134)	(12.3140)
Diluted (cents per share)		(3.1134)	(12.3140)

Notes to the financial statements are included on pages 25 to 72.

Consolidated statement of financial position at 30 June 2011

	Notes	30-Jun-11	30-Jun-10
		\$	\$
Assets			
Current assets			
Cash and bank balances	27a	50,258,603	4,361,222
Trade and other receivables	15	1,026,043	2,038,006
Inventories	16	1,468,078	3,655,034
Other assets	17	234,398	219,036
		<u>52,987,122</u>	<u>10,273,298</u>
Assets classified as held for sale	12	2,289,160	10,481,710
		<u>55,276,282</u>	<u>20,755,008</u>
Total current assets			
Non-current assets			
Exploration and evaluation assets	18	18,768,555	29,039,354
Oil and gas assets	19	41,791,627	26,252,743
Property, plant and equipment	20	570,597	192,817
Other assets	17	1,287,308	183,615
		<u>62,418,087</u>	<u>55,668,529</u>
Total non-current assets		<u>62,418,087</u>	<u>55,668,529</u>
Total assets		<u>117,694,369</u>	<u>76,423,537</u>
Liabilities			
Current liabilities			
Trade and other payables	21	4,122,834	1,030,325
Current tax liabilities	10	-	3,411,308
Provisions	22	213,840	73,126
		<u>4,336,674</u>	<u>4,514,759</u>
Liabilities directly associated with assets classified as held for sale	12	-	2,892,794
		<u>4,336,674</u>	<u>7,407,553</u>
Total current liabilities		<u>4,336,674</u>	<u>7,407,553</u>
Non-current liabilities			
Provisions	22	3,399,700	3,266,303
		<u>3,399,700</u>	<u>3,266,303</u>
Total non-current liabilities		<u>3,399,700</u>	<u>3,266,303</u>
Total liabilities		<u>7,736,374</u>	<u>10,673,856</u>
Net assets		<u>109,957,995</u>	<u>65,749,681</u>
Equity			
Issued capital	23	158,766,964	110,489,587
Reserves		7,309,708	3,755,429
Retained earnings		(56,118,677)	(50,600,114)
Equity attributable to owners of the parent		<u>109,957,995</u>	<u>63,644,902</u>
Non-controlling interests		-	2,104,779
		<u>109,957,995</u>	<u>65,749,681</u>
Total equity		<u>109,957,995</u>	<u>65,749,681</u>

Notes to the financial statements are included on pages 25 to 72.

Consolidated statement of changes in equity for the year ended 30 June 2011

	Share capital	Equity-settled benefits reserve	Foreign currency translation reserve	General reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	96,567,411	1,296,560	(1,477,486)	1,008,408	(25,995,206)	71,399,687	2,257,923	73,657,610
Loss for the year	-	-	-	-	(24,604,908)	(24,604,908)	(153,144)	(24,758,052)
Other comprehensive income for the year	-	-	324,847	-	-	324,847	-	324,847
Total comprehensive income	96,567,411	1,296,560	(1,152,639)	1,008,408	(50,600,114)	47,119,626	2,104,779	49,224,405
Recognition of share-based payments	-	2,603,100	-	-	-	2,603,100	-	2,603,100
Shares issued during the year	14,955,667	-	-	-	-	14,955,667	-	14,955,667
Transaction costs of share issue	(1,033,491)	-	-	-	-	(1,033,491)	-	(1,033,491)
Balance at 30 June 2010	110,489,587	3,899,660	(1,152,639)	1,008,408	(50,600,114)	63,644,902	2,104,779	65,749,681
Balance at 1 July 2010	110,489,587	3,899,660	(1,152,639)	1,008,408	(50,600,114)	63,644,902	2,104,779	65,749,681
Loss for the year	-	-	-	-	(5,518,563)	(5,518,563)	(115,406)	(5,633,969)
Other comprehensive income	-	-	507,451	2,432,040	-	2,939,491	-	2,939,491
Total comprehensive income	110,489,587	3,899,660	(645,188)	3,440,448	(56,118,677)	61,065,830	1,989,373	63,055,203
Deconsolidation adjustment	-	-	-	-	-	-	(1,989,373)	(1,989,373)
Recognition of share-based payments	-	1,258,048	-	-	-	1,258,048	-	1,258,048
Shares issued during the year	51,523,587	(643,260)	-	-	-	50,880,327	-	50,880,327
Transaction costs of share issue	(3,246,210)	-	-	-	-	(3,246,210)	-	(3,246,210)
Balance at 30 June 2011	158,766,964	4,514,448	(645,188)	3,440,448	(56,118,677)	109,957,995	-	109,957,995

Notes to the financial statements are included on pages 25 to 72.

Consolidated statement of cash flows for the year ended 30 June 2011

	Notes	30-Jun-11 \$	30-Jun-10 \$
Cash flows from operating activities			
Receipts from customers		17,890,809	8,044,600
Payments to suppliers and employees		(10,552,262)	(11,680,155)
Cash generated/(used in) by operations		7,338,547	(3,635,555)
Interest paid		(911,376)	(7,745)
Income taxes paid		(1,224,608)	(226,023)
Net cash generated/(used in) by operating activities	27c	5,202,563	(3,869,323)
Cash flows from investing activities			
Interest received		262,232	311,243
Payments for exploration & evaluation		(9,955,052)	(7,712,380)
Payment for property, plant and equipment - oil and gas assets		(1,302,913)	(4,935,921)
Payment for property, plant and equipment - other assets		(563,751)	(161,979)
Net payments to acquire other assets		(1,069,899)	-
Proceeds from sale of property, plant and equipment - oil and gas assets		950,000	202,943
Proceeds from sale of subsidiary (net of cash disposed)		4,329,877	-
Proceeds from investments		127,921	33,660
Net cash (used in) investing activities		(7,221,585)	(12,262,434)
Cash flows from financing activities			
Proceeds from issues of equity shares		49,580,327	14,955,667
Payment for share issue costs		(3,246,210)	(1,033,491)
Net cash generated by financing activities		46,334,117	13,922,176
Net increase/(decrease) in cash and cash equivalents		44,315,095	(2,209,581)
Cash and cash equivalents at the beginning of the year		6,520,983	8,141,877
Effects of exchange rate changes on the balance of cash held in foreign currencies		(577,475)	588,687
Cash and cash equivalents at the end of the year	27a	50,258,603	6,520,983

Notes to the financial statements are included on pages 25 to 72.

1. General information

Drillsearch Energy Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the symbol 'DLS'), incorporated and operating in Australia.

Drillsearch Energy Limited's registered office and its principal place of business are as follows:

Registered office

16th Floor
55 Clarence Street
SYDNEY NSW 2000
Tel: (02) 9249 9600

Principal place of business

16th Floor
55 Clarence Street
SYDNEY NSW 2000
Tel: (02) 9249 9600

The entity's principal activities are the exploration, development and production of oil and gas interests.

2. Application of new and revised Accounting Standards

2.1 Standards and Interpretations affecting amounts in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

2. Adoption of new and revised Accounting Standards (continued)

Standards affecting presentation and disclosure

Amendments to AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'	Disclosures in these financial statements have been modified to reflect the clarification in AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' that the disclosure requirements in Standards other than AASB 5 do not generally apply to non-current assets classified as held for sale and discontinued operations.
Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011)	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
Amendments to AASB 107 'Statement of Cash Flows'	The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

2.2 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements Project'	Except for the amendments to AASB 5 and AASB 107 described earlier in this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.
AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions'	The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

2. Adoption of new and revised Accounting Standards (continued)

2.2 Standards and Interpretations adopted with no effect on financial statements (continued)

<p>AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'</p>	<p>The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.</p>
<p>AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'</p>	<p>The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure').</p>
<p>AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'</p>	<p>Except for the amendments to AASB 7 and AASB 101 described earlier in this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.</p>
<p>Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'</p>	<p>This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.</p>

2. Adoption of new and revised Accounting Standards (continued)

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
AASB 7 'Financial Instruments: Disclosure', AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2011	30 June 2012
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013

3. Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements).

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 29 August 2011.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Early adoption of Accounting Standards

The directors have elected under s.334 (5) of the Corporations Act 2001 to apply Amendments to AASB 101 'Presentation of Financial Statements' in advance of their effective date. The Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2011. The impact of the adoption of this standard is disclosed in note 2.1 to the financial statements.

Going concern basis

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2011, the Group incurred a net loss after tax of \$5,633,969 (2010: loss \$24,758,052). This reduction in gross loss was largely driven by a 136% increase in revenues as a result of both new oil production from the Chiton oil field and higher realised oil prices. The net cash generated by operating activities for the year ended 30 June 2011 was \$5,202,563 (2010: net cash used \$3,869,323). The Group's net asset position at 30 June 2011 was \$109,957,995 (2010: \$65,749,681) and its cash balance amounted to \$50,258,603 (2010: \$4,361,222) at that date.

The Directors' cash flow forecasts project that the Group will continue to be able to meet its liabilities and obligations (including those contractual commitments as disclosed in note 24) as and when they fall due for a period of at least 12 months from the date of signing of this financial report. The cash flow forecasts are dependent upon the generation of sufficient cash flows from operating activities to meet working capital requirements, and the ability of the Group to manage discretionary exploration and evaluation expenditure on non-core assets via the farm out of certain interests and/or a reduction in its future work programmes. The Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied as to the ability of the Group to implement the above.

3. Significant accounting policies (continued)

Going concern basis (continued)

The financial report does not include adjustments, if any, relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

3. Significant accounting policies (continued)

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

The interest of non-controlling shareholders in the acquiree is initially measured at net fair value of the assets, liabilities and contingent liabilities recognised. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Business combinations that took place prior to 1 July 2009 were accounted for in accordance with the previous version of AASB 3.

3. Significant accounting policies (continued)

(c) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

3. Significant accounting policies (continued)

(d) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

3. Significant accounting policies (continued)

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(f) Revenue

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration received or receivable, net of goods and services tax, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales revenue

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or on the product entering the pipeline.

Overriding royalties

Royalties recognised on farmed out operating lease rights are recognised as revenue as they accrue in accordance with the terms of the overriding royalty agreements.

Pipeline tariffs and processing tolls

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Group are recognised as revenue as they accrue in accordance with the terms of the tariff and tolling agreements.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3. Significant accounting policies (continued)

(g) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model or monte carlo. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity settled employee benefits reserve.

The policy described above is applied to all equity-settled share based payments that were granted after 7 November 2003 that vested after 1 January 2006. No amounts have been recognised in the financial statements in respect of the other equity-settled shared-based payments.

(h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference

3. Significant accounting policies (continued)

(h) **Taxation (continued)**

and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Drillsearch Energy Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

3. Significant accounting policies (continued)

(h) Taxation (continued)

Further information about the tax funding arrangement is detailed in note 10. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(i) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(j) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements as described in note 28.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. Significant accounting policies (continued)

(j) Financial assets (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' in the statement of comprehensive income. Fair value is determined in the manner described in note 28.

AFS financial assets

Certain shares and redeemable notes held by the Group are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 28. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss.

Dividends on AFS equity instruments are recognised in profit and loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting period. The foreign exchange gains and losses that are recognised in the profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. Significant accounting policies (continued)

(j) Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial assets is reduced by the impairments loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3. Significant accounting policies (continued)

(j) Financial assets (continued)

De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(l) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of the subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(m) Property, plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The straight line method is used. Assets are depreciated or amortised from the date of acquisition.

3. Significant accounting policies (continued)

(m) Property, plant and equipment (continued)

The depreciation rates used for each class of depreciable assets are:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Property Plant and Equipment	5-33%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(n) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

3. Significant accounting policies (continued)

(p) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with AASB 118 'Revenue'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration payable is recognised in profit or loss.

3. Significant accounting policies (continued)

(q) Provision for decommissioning

A provision for decommissioning is recognised when there is a present obligation as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future decommissioning costs is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date. Future decommissioning costs are reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning and rehabilitation provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for decommissioning are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(r) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:

(i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

(ii) exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine

3. Significant accounting policies (continued)

(r) Exploration and evaluation (continued)

the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years. Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(s) Development

Development expenditure is recognised at cost less accumulated amortisation and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field on a units-of-production basis. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis.

(t) Oil and gas assets

The Group follows the full cost method of accounting for oil and gas assets whereby all costs, less any incentives related to the acquisition, exploration and development of oil and gas reserves are capitalised. These costs include land acquisition costs, geological and geophysical expenses, the costs of drilling both productive and non-productive wells, non-producing lease rentals and directly related general and administrative expenses. Proceeds received from the disposal of properties are normally credited against accumulated costs.

When a significant portion of the properties is sold, a gain or loss is recorded and reflected in profit or loss.

With respect to oil and gas assets, depletion of oil and gas assets and amortisation of production facilities and equipment are calculated using the unit-of-production method based on estimated proven oil and gas reserves. For the purposes of the depletion calculation, proven oil and gas reserves before royalties are converted to a common unit of measure.

The estimated costs for developing proved undeveloped reserves, future decommissioning and abandonments, net of estimated salvage values, are provided for on the unit of production method included in the provision for depletion and amortisation.

In applying the full cost method of accounting, capitalised costs less accumulated depletion are restricted from exceeding an amount equal to the estimated discounted future net revenues, based on year end prices and costs, less the aggregate estimated future operating and capital costs derived from proven and probable reserves.

3. Significant accounting policies (continued)

(u) **Impairment**

The carrying amounts of Drillsearch's assets are reviewed at the end of each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless an asset has previously been re-valued through equity, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through profit or loss.

Calculation of recoverable amount

The recoverable amount of Drillsearch's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Exploration and evaluation assets

The Group's policy for exploration and evaluation is discussed in note 3(r). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying the entity's accounting policies (continued)

Exploration and evaluation assets (continued)

assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through profit or loss.

Estimate of reserve quantities

The estimated quantities of proven and probable hydrocarbon reserves reported by the Group are integral to the calculation of amortisation (depletion) and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessment of the technical feasibility and commercial viability of producing the reserves. Management prepare reserve estimates which conform to guidelines prepared by the Society of Petroleum Engineers. These estimates are then verified by independent technical experts.

These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimate of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations.

Provision for decommissioning

The Group estimates the future removal and decommissioning costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make adjustments regarding the removal date, future environmental legislation, the extent of decommissioning activities and future removal technologies.

Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which each asset belongs. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and or subsequent disposal. The expected net cash flows are discounted to their present values in determining the recoverable amount.

5. Segment information

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable business unit.

Segment revenues and results

	Segment revenue		Segment profit (loss)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Oil Projects	13,671,414	6,008,658	2,265,701	(11,344,174)
Wet Gas Projects	764,875	100,673	(949,397)	185,581
Divestment Assets	-	-	(1,116,297)	(3,180,139)
New Ventures	-	-	(124,510)	(1,913,748)
Total from continuing operations	14,436,289	6,109,331	75,497	(16,252,480)
Investment revenue			317,806	311,243
Central admin costs & directors salaries			(7,613,127)	(7,675,547)
Finance costs			202,404	(433,396)
Loss before tax (continuing operations)			(7,017,420)	(24,050,180)

Revenue reported above represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue, finance costs and income tax expense. This is the measure reporting to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

5. Segment information (continued)

Other segment information

	Amortisation and Depreciation		Additions to non-current assets	
	2011	2010	2011	2010
	\$	\$	\$	\$
Oil Projects	3,695,414	2,676,629	7,274,198	7,538,375
Wet Gas Projects	-	-	3,365,410	1,160,888
Unconventional Projects	-	-	492,145	-
Divestment Assets	-	-	367,393	3,598,538
New Ventures	-	-	33,708	386,387
Other	135,888	101,442	571,317	126,092
	3,831,302	2,778,071	12,104,171	12,810,280

	Impairment losses		Exploration write off	
	2011	2010	2011	2010
	\$	\$	\$	\$
Oil Projects	-	11,266,946	983,245	72,307
Wet Gas Projects	-	-	709,678	(116,170)
Divestment Assets	-	-	974,606	3,119,836
New Ventures	-	-	125,567	678,570
	-	11,266,946	2,793,096	3,754,543

The Group operates in only one geographic segment being Australia.

6. Revenue

The following is an analysis of the Group's revenue for the year, from continuing operations (excluding investment revenue – see note 7).

	2011	2010
	\$	\$
Revenue from the sale of oil and gas	14,344,808	5,962,145
Revenue from tariffs and royalties	91,481	147,186
	14,436,289	6,109,331

See note 5 for an analysis.

7. Investment revenue

Continuing operations

	2011	2010
	\$	\$
Interest revenue		
Bank deposits	317,806	311,035
Other	-	208
Total interest	317,806	311,243

8. Other gains and losses

Continuing operations

	2011	2010
	\$	\$
Other gains		
Gain on disposal of property, plant and equipment	346,656	191,160
Compensation for farm-in termination	1,000,000	-
Other	26,291	13,421
	1,372,947	204,581
Net foreign exchange (loss)/gains	(743,544)	46,528
	(743,544)	46,528
	629,403	251,109

9. Finance income/(costs)

Continuing operations

	2011	2010
	\$	\$
Interest on bank overdrafts and loans	(3,079)	(7,745)
Other interest expense	-	(166,664)
Credit for Canadian tax reassessment	516,114	-
Total interest expense	513,035	(174,409)
Line of equity facility fee	(107,763)	-
Unwinding of discount on provisions	(202,868)	(258,987)
	202,404	(433,396)

10. Income taxes

Income tax recognised in profit or loss

	2011	2010
	\$	\$
Tax expense comprises:		
Adjustments recognised in the current year in relation to the current tax of prior years	(449,649)	-
	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	(34,462)
	(449,649)	(34,462)
Total tax expense relating to continuing operations	(449,649)	(34,462)

The expense for the year can be reconciled to accounting profit as follows:

	2011	2010
	\$	\$
Loss from continuing operations	7,017,420	24,050,180
Income tax benefit calculated at 30% (2010: 30%)	(2,105,226)	(7,215,054)
Effect of expenses that are not deductible in determining taxable profit	208,814	3,430,083
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	1,896,412	3,750,509
	-	(34,462)
Adjustments recognised in the current year in relation to the current tax of prior years	(449,649)	-
	(449,649)	(34,462)

The tax rate used for the 2011 and 2010 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Current tax liabilities

In the current financial year, Drillsearch Energy Canada Incorporated, a wholly-owned subsidiary of Drillsearch, received a final re-assessment for the 2000 taxation year. The liability including penalties and interest totalling CAD\$ 2,220,796 was paid in settlement of negotiations with the Canadian tax authorities.

	2011	2010
	\$	\$
Current tax liabilities		
Income tax payable attributable to:		
Other (see note above)	-	3,411,308
	-	3,411,308

Unrecognised deferred tax assets

	2011	2010
	\$	\$
The following deferred tax assets have not been brought to account as assets:		
Tax losses – revenue	20,915,962	19,019,549

10. Income taxes (continued)

Tax consolidation

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Drillsearch Energy Limited. The members of the tax-consolidated group are identified in note 26.

11. Discontinued operations

Disposal of Circumpacific Energy Corporation (CER)

On 11 November 2010, the Group disposed of all of its interests in Circumpacific. The proceeds on disposal of \$5,938,143 were received in cash and assets, being the remaining interest in South West Queensland blocks. The loss for the period from the discontinued operations is analysed as follows:

	4 months ended 31 Oct 2010	12 months ended 30 June 2010
	\$	\$
Loss of Circumpacific Energy for the period	(559,410)	(742,334)
Profit on realisation of reserves	1,038,803	-
Profit on disposal	454,409	-
	933,802	(742,334)

The following were the results of Circumpacific for the period:

	4 months ended 31 Oct 2010	12 months ended 30 June 2010
	\$	\$
Revenue	1,142,768	3,500,164
Expenses	(1,702,178)	(4,242,498)
Loss before tax	(559,410)	(742,334)
Income tax expense	-	-
Loss after Income tax	(559,410)	(742,334)

The net assets of Circumpacific at the date of disposal were as follows:

	31-Oct-10
	\$
Net assets disposed of	5,483,734
Profit on disposal	454,409
Total consideration	5,938,143
Satisfied by cash, and net cash inflow arising on disposal	5,938,143

A profit of \$454,409 was recognised on the disposal of Circumpacific.

12. Asset held for sale

		2011	2010
	Notes	\$	\$
Assets			
Cash and bank balances	27a	-	2,159,761
Trade and other receivables		-	870,025
Exploration and evaluation assets	18	2,289,160	773,709
Oil and gas assets	19	-	5,644,894
Property, plant and equipment	20	-	24,096
Inventory		-	929,832
Other assets		-	79,393
Total assets		2,289,160	10,481,710
Liabilities			
Trade and other payables		-	1,465,293
Provisions	22	-	1,427,501
Total liabilities		-	2,892,794
Net assets		2,289,160	7,588,916

In February 2011, the company announced the sale of its three Gippsland Basin Permits being VIC/P63, VIC/P64 and T/46P to Larus Energy Pty Limited. The sale is conditional upon successful listing of Larus Energy Pty Limited on the Australian Securities Exchange. A non-refundable deposit of \$100,000 has been received towards the sale consideration.

13. Loss for the year from continuing operations

	2011	2010
	\$	\$
Owners of the Parent	(6,452,365)	(23,862,574)
Non-controlling interests	(115,406)	(153,144)
	(6,567,771)	(24,015,718)

(a) Other expenses

Loss from continuing operations has been arrived at after charging / (crediting):

	2011	2010
	\$	\$
Accounting and audit fees	190,354	224,213
Consultancy fees	240,120	567,293
Office rent	338,120	173,107
IT maintenance and software	199,091	144,962
Allowance for doubtful debts	-	133,694
Director's fee and expenses	458,944	304,690
Share registry and listing fee	197,346	139,997
Miscellaneous costs	1,704,377	469,933
	3,328,352	2,157,889

(b) Significant items

	2011	2010
	\$	\$
Corporate activity costs	1,783,515	984,228
Amortisation expense	3,695,414	2,676,629
Depreciation expense	135,888	101,442
Exploration and evaluation costs expensed	2,793,096	3,754,543
Loss on investment	72,017	60,002
Impairment of oil and gas assets	-	11,266,946
Total significant items	8,479,930	18,843,790

During the year, the consolidated entity carried out a review of the recoverable amount of its oil and gas assets. The review led to no impairment loss on the Australian oil and gas assets (2010: \$11,266,946). (See note 19 for additional information).

14. Earnings per share

	2011	2010
	Cents per share	Cents per share
Basic earnings per share from continuing operations	(3.1134)	(12.3140)
Basic earnings per share from discontinuing operations	0.4427	(0.3810)
Total basic earnings per share	(2.6707)	(12.6950)
Diluted earnings per share from continuing operations	(3.1134)	(12.3140)
Diluted earnings per share from discontinuing operations	0.4427	(0.3810)
Total diluted earnings per share	(2.6707)	(12.6950)

Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2011	2010
	\$	\$
Loss for the year attributable to owners of the Company	(5,633,969)	(24,758,052)
Earnings used in the calculation of total basic and diluted earnings per share	(5,633,969)	(24,758,052)
(Loss)/profit for the year from discontinued operations used in the calculation of basic EPS from discontinued operations	(933,802)	742,334
Earnings used in the calculation of basic and diluted EPS from continuing operations	(6,567,771)	(24,015,718)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	210,948,411	195,034,833

15. Trade and other receivables

	2011	2010
	\$	\$
Trade receivables (i)	1,012,166	2,033,460
	1,012,166	2,033,460
Other receivables	13,877	-
Unsecured loans receivable from other parties	-	4,546
	13,877	4,546
	1,026,043	2,038,006

(i) The average credit period on sales of goods is 30 days.

16. Inventories

	2011	2010
	\$	\$
Petroleum (crude oil and condensate at cost)	1,468,078	3,655,034
Total	1,468,078	3,655,034

Petroleum stocks on hand are the company's share of oil produced from the company's joint venture interests in Queensland, Australia.

17. Other assets

	2011	2010
	\$	\$
<u>Current</u>		
Prepayments	123,285	81,111
Security deposit	111,112	137,925
	234,398	219,036
<u>Non-current</u>		
Security deposit	1,258,308	128,332
Rental bond	29,000	55,283
	1,287,308	183,615
	1,521,706	402,651

18. Exploration and evaluation assets

	2011	2010
	\$	\$
Opening balance	29,039,354	30,278,365
Acquisitions	1,449,997	-
Reclassified from asset held for sale	1,120,471	-
Expenditure incurred during the year	9,985,310	7,712,380
Expenditure expensed during the year	(2,793,096)	(3,754,543)
Changes in decommissioning obligations	-	(54,207)
Reclassified to oil and gas assets	(17,764,556)	(4,425,986)
Reclassified as asset held for sale	(2,289,160)	(773,709)
Foreign currency translation	20,235	57,054
Balance carried forward	18,768,555	29,039,354

19. Oil and gas assets

	2011	2010
	\$	\$
Opening balance	26,252,743	37,033,739
Expenditure incurred during the year	1,547,544	4,920,932
Depletion and amortisation expense	(3,695,414)	(3,618,494)
Impairment charges	-	(11,266,946)
Changes in decommissioning obligations	-	614,129
Reclass from exploration & evaluation assets	17,764,556	4,425,986
Reclass from property plant and equipment	-	14,988
Reclassified as asset held for sale	-	(5,644,894)
Foreign currency translation	(77,802)	(226,697)
Balance carried forward	41,791,627	26,252,743

	2011	2010
	\$	\$
Balance at cost	69,242,558	65,137,670
Accumulated depletion and amortisation	(13,726,943)	(11,848,035)
Impairment charges	(13,723,988)	(27,036,892)
Balance carried forward	41,791,627	26,252,743

There was no depreciation during the period that was capitalised as part of the cost of other assets.

During the year, the consolidated entity carried out a review of the recoverable amount of its oil and gas assets. The review led to no impairment loss on the Australian oil and gas assets (2010: \$11,266,946). The recoverable amount of the relevant assets has been determined on the basis of a discounted cash flow of future production based on proven and probable reserves.

20. Property, plant and equipment

	2011	2010
	\$	\$
Opening balance	192,817	177,255
Expenditure incurred during the year	571,317	176,967
Depreciation expense	(135,888)	(108,760)
Disposals during year	(57,649)	(11,782)
Reclassified to oil and gas assets	-	(14,988)
Reclassified as asset held for sale	-	(24,096)
Foreign currency translation	-	(1,779)
Balance carried forward	570,597	192,817

20. Property, plant and equipment (continued)

	2011	2010
	\$	\$
Balance at cost	919,281	469,747
Accumulated depreciation	(348,684)	(276,930)
Balance carried forward	570,597	192,817

21. Trade and other payables

	2011	2010
	\$	\$
Trade payables (i)	3,400,651	909,601
Consideration received in advance	100,000	-
Goods and services tax payable	324,660	33,399
Other dues and taxes	297,523	87,325
	4,122,834	1,030,325

- (i) The average credit period on purchases of goods is 30 days. The Group seeks to ensure that all payables are paid within the credit timeframe.

22. Provisions

	2011	2010
	\$	\$
<u>Current</u>		
Employee benefits (i)	213,840	73,126
Office rent	-	-
	213,840	73,126
<u>Non-current</u>		
Decommissioning costs	3,399,700	3,266,303
	3,399,700	3,266,303

- (i) The provision represents annual leave and sick leave accrued for employees.

Decommissioning costs	2011	2010
	\$	\$
Opening balance	3,266,303	3,823,412
Additional provisions recognised	-	559,922
Payments made	-	6,726
Unwinding of discount	202,868	329,455
Reclassified as asset held for sale	-	(1,427,501)
Foreign currency translation	(69,471)	(25,711)
Balance carried forward	3,399,700	3,266,303

22. Provisions (continued)

The provision for decommissioning costs represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be required to remove the facilities and restore the affected areas at the Group's operation sites.

The decommissioning of the oil and gas properties is expected to be undertaken between 2 to 25 years from the date of this report.

23. Issued capital

	2011	2010
	\$	\$
304,176,742 fully paid ordinary shares (2010: 202,754,493)	158,766,964	110,489,587
	158,766,964	110,489,587

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Share consolidation

During the year, the Company completed a 1 for 10 share consolidation in early February 2011.

	No.	\$
Fully paid ordinary shares		
Balance at beginning of financial year	202,754,493	110,489,587
Issue of shares during the year	101,422,249	51,523,587
Share issue costs	-	(3,246,210)
Balance at end of financial year	304,176,742	158,766,964

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options granted under the employee share option plan

As at 30 June 2011, directors (including retired), executives and senior employees have options over 10,599,597 ordinary shares, in aggregate, with all of those options expiring between 2012 and 2018. As at 30 June 2010, executives and senior employees had options over 9,400,000 ordinary shares.

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee option plans are contained in note 29 to the financial statements.

Other share options on issue

As at 30 June 2011, the company has 1,150,000 share options on issue (2010: 150,000), exercisable on a 1:1 basis for 1,150,000 ordinary shares of the company (2010: 150,000) at an exercise price of between 40 and 50 cents. The options expire on 29 July 2011 and 12 August 2012, and carry no rights to dividends and no voting rights. 1,000,000 of these options were exercised on 28 July 2011.

24. Commitments for expenditure

	2011	2010
	\$	\$
Capital expenditure commitments		
<u>Oil and gas properties</u>		
Not longer than 1 year	24,691,030	17,870,680
Longer than 1 year and not longer than 5 years	39,132,219	13,178,944
	63,823,249	31,049,624
Operating lease commitments (office rental)		
Not longer than 1 year	371,556	186,585
Longer than 1 year and not longer than 5 years	928,890	746,339
	1,300,446	932,924

Commitments comprise approved expenditures, permit commitments and operator approved budgets.

25. Contingent liabilities

Drillsearch has been involved in legal proceedings during the year including those detailed below:

- Drillsearch was involved in legal proceedings commenced in the Supreme Court of New South Wales, concerning a claim by Carling Capital Partners for advisory fees. On 29 July 2010, these proceedings were resolved.
- On 12 May 2009, Odin Energy Limited (Odin) announced that it had added Great Artesian Oil and Gas Limited (Great Artesian), a subsidiary of Drillsearch, to legal proceedings brought by Odin against Kompliment Pty Limited (Kompliment) and its holding company, Blue Energy Limited, (Blue Energy) relating to the termination of a sub-farmin agreement between those parties, and loss and damage Odin claims to have suffered in the circumstances of that agreement. Odin is claiming damages from Kompliment and Blue Energy in the amount of approximately \$4.5 million. As part of the proceedings, it is alleged that heads of agreement between Great Artesian, Kompliment and Blue Energy have terminated. The proceedings therefore essentially involve a dispute between a farminee (Kompliment) and sub farminee (Odin), and no claim for damages is made against Great Artesian. Great Artesian has filed its defence, provided discovery and participated in mediation sessions involving all parties to the proceedings. Attempts to resolve the matter at mediation were unsuccessful. The matter returned to an active footing in April 2011 and orders have now been made for the filing and service of witness statements. Great Artesian has filed an application to challenge those parts of Odin's pleadings that involve Great Artesian and to seek security for its costs in the event that Odin is ultimately unsuccessful at trial.

There is no other litigation of a material nature against Drillsearch or its subsidiaries of which the Directors are aware.

26. Subsidiaries

Name of venture	Country of Incorporation	Ownership interest	
		2011 %	2010 %
Great Artesian Oil and Gas Limited (ii)	Australia	100	100
Clean Gas Pty Limited (ii)	Australia	100	100
Drillsearch Energy Gas Pty Limited (ii)	Australia	100	100
Circumpacific Energy (Australia) Pty Limited (ii) (iii)	Australia	100	79.4
Drillsearch Energy (Canada) Incorporated	Canada	100	100
Circumpacific Energy Corporation (iv)	Canada	-	79.4
Kun Yick International Limited	Hong Kong	100	100
Drillsearch Energy (PNG) Limited	Papua New Guinea	100	100

- (i) Drillsearch Energy Limited is the head entity within the tax-consolidated group.
- (ii) These companies are members of the tax-consolidated group.
- (iii) During the year, the Company acquired 100% control of Circumpacific Energy (Australia) Pty Ltd from Circumpacific Energy Corporation.
- (iv) During the year, the Group disposed of its 79.37% interest in Circumpacific Energy Corporation.

27. Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows as follows:

		2011	2010
	Note	\$	\$
Cash and bank balances		50,258,603	4,361,222
Cash and bank balances included in a disposal group held for sale	12	-	2,159,761
		50,258,603	6,520,983

Surplus cash balances are invested with triple A rated Australian banks as per the company's treasury policy.

(b) Financing facilities

		2011	2010
		\$	\$
Secured bank overdraft facility:			
Amount unused included in a disposal group held for sale		-	1,671,123
		-	1,671,123

Equity facility

The Company has secured a \$15 million facility with US-based Investment Fund YA Global Master SPV Ltd (YA Global). Under the terms of the facility, the Company may, at its discretion, issue shares that are listed on the ASX to YA Global at any time over the next 60 months for up to a total value of A\$15 million. The Company may draw down up to

27. Cash and cash equivalents (continued)

A\$300,000 in any period of 10 trading days. Shares issued to YA Global will be priced at 100% of the lowest volume weighted average price (VWAP) of the Company shares traded on each of the 10 trading days which follow an advance notice by the Company. A commission of 3% will be payable at the time of issue.

(c) Reconciliation of profit for the year to net cash flows from operating activities

	2011	2010
	\$	\$
Net loss after income tax	(5,633,969)	(24,758,052)
Income tax expense recognised in profit and loss	(449,649)	-
Depreciation	135,888	101,442
Amortisation	3,695,414	2,676,629
Exploration and evaluation costs	2,793,096	3,754,543
Impairment of oil and gas assets	-	11,266,946
Share based payments	1,258,048	2,603,100
Foreign exchange gains	(196,489)	(114,130)
Non cash flow items relating to discontinued operation	(1,038,955)	949,184
Finance cost recognised in profit and loss	(513,035)	168,767
Investment revenue recognised in profit and loss	(317,806)	(311,243)
Profit on sale of oil and gas assets	(399,075)	-
Loss/(profit) on sale of fixed assets	52,419	(191,160)
Loss/(profit) on sale of shares	72,079	(11,660)
Decrease in receivables	983,435	54,137
Increase in creditors	2,988,823	75,516
Decrease/(Increase) in inventories	2,959,664	(235,756)
Unwinding of discount in provisions	202,868	258,987
Other	745,791	77,195
Cash generated/(used in) by operating activities	7,338,547	(3,635,555)
Interest paid	(911,376)	(7,745)
Income taxes paid	(1,224,608)	(226,023)
Net cash generated/(used in) by operating activities	5,202,563	(3,869,323)

28. Financial Instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of cash and bank balances and equity of the Group (comprising issued capital, reserves and retained earnings and non-controlling interests).

28. Financial Instruments (continued)

(a) Capital risk management (continued)

The Group operates globally. In the markets in which the Group trades, none of the Group's entities are subject to externally imposed capital requirements. Operating cash flows are used to maintain and expand the Group's exploration and production assets, as well as to make the routine outflows of tax, and repayment of maturing debt. The Group's policy is to use a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

(b) Financial risk management objectives

The Group's financial instruments consist of deposits with banks, local money market instruments, short-term investments, account receivables and payables and loans to and from subsidiaries.

Exposure to currency risk, interest rate risk, commodity risk, and liquidity risk arises in the normal course of the business. The consolidated Group's overall financial risk management strategy is to seek to ensure that the consolidated Group is able to fund its business plans. The Group does not have derivative financial instruments as at 30 June 2011. The Group uses various measures dependent on the types of risk to which it is exposed. These methods include cash flow at risk analysis in the case of interest rate, foreign currency and commodity price risk, and ageing analysis for credit risk.

(c) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	2011	2010
	\$	\$
US Dollars	1,646,175	109,351
Canadian Dollars	108	15,803
	1,646,283	125,154

Foreign currency sensitivity analysis

The Group's main exposure is to US dollars (USD) in the Australian entities, which are Australian Dollar functional currency entities. The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A positive number below indicates an increase in profit and other equity where the Australian dollar strengthens 10% against the relevant currency. For a 10% weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

28. Financial Instruments (continued)

(c) Foreign currency risk management (continued)

	USD Impact	
	2011	2010
	\$	\$
Profit or loss	189,126	144,861

This is mainly attributable to the exposure outstanding on USD receivables, payables and cash balances at the end of the reporting period in the Australian entities.

(d) Credit risk management

Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Group generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Accounts receivable related to the sale of the Group's petroleum and natural gas production are from major marketing companies.

(e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management process for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Included in note 27(b) is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

28. Financial Instruments (continued)

(e) Liquidity risk management (continued)

	Weighted average effective interest rate %	0-3 months	3 months to 1 year	1-5 years	Total
		\$	\$	\$	\$
2011					
Non-interest bearing	-	4,122,834	-	-	4,122,834
Total financial liabilities		4,122,834	-	-	4,122,834
Tax liabilities					-
Provisions					3,613,540
Assets classified as held for sale					-
Total liabilities					7,736,374
2010					
Non-interest bearing	-	1,030,325	-	-	1,030,325
Total financial liabilities		1,030,325	-	-	1,030,325
Tax liabilities					3,411,308
Provisions					3,339,429
Assets classified as held for sale					2,892,794
Total liabilities					10,673,856

28. Financial Instruments (continued)

(e) Liquidity risk management (continued)

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	0-3 months	3 months to 1 year	1-5 years	Total
		\$	\$	\$	\$
2011					
Non-interest bearing	-	3,505,578	-	1,287,308	4,792,886
Variable interest rate instruments	5.75%	32,835,110	-	-	32,835,110
Fixed interest rate instruments	6.00%	15,178,356	-	-	15,178,356
Total financial assets		51,519,044	-	1,287,308	52,806,352
Inventory					1,468,078
Other non-current assets					61,130,779
Assets classified as held for sale					2,289,160
Total assets					117,694,369
2010					
Non-interest bearing	-	2,684,600	-	183,615	2,868,215
Variable interest rate instruments	3.25%	933,664	-	-	933,664
Fixed interest rate instruments	5.50%	-	3,000,000	-	3,000,000
Total financial assets		3,618,264	3,000,000	183,615	6,801,879
Inventory					3,655,034
Other non-current assets					55,484,914
Assets classified as held for sale					10,481,710
Total assets					76,423,537

(f) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives

28. Financial Instruments (continued)

(f) Fair value of financial instruments (continued)

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

29. Share-based payments

The company had 9,550,000 options on issue at the start of the financial year. Drillsearch issued 5,199,597 options during the year, whilst 3,000,000 options were exercised.

Each share option converts into one ordinary share of Drillsearch Energy Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options granted have various expiry periods between three and seven years of their issue, or 90 days of the resignation in case of the director or executive.

The total share-based payment expense for the year was \$1,258,048 (2010: \$2,603,100).

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Grant date	Expiry date	Grant date fair value	Vesting date
(8) Issued 28 November 2008	12/08/08	12/08/12	\$0.2892	Vests at date of grant
(9) Issued 28 November 2008	28/11/08	28/11/12	\$0.1413	Vests at date of grant
(10) Issued 11 November 2009	15/06/09	10/11/13	\$0.1520	Vests at date of grant
(11) Issued 1 December 2009	6/10/09	30/11/13	\$0.3300	Vests at date of grant
(12) Issued 1 December 2009	4/12/09	30/11/13	\$0.5160	Vests at date of grant
(13) Issued 1 December 2009	1/10/09	30/09/14	\$0.4020	Vests at date of grant
(14) Issued 3 March 2010	3/03/10	2/03/13	\$0.3700	Vests at date of grant
(15) Issued 16 March 2010	16/03/10	15/03/15	\$0.3847	Vests at date of grant
(16) Issued 28 July 2010	28/07/10	29/10/10	\$0.2321	Vests at date of grant
(17) Issued 28 July 2010	28/07/10	31/01/11	\$0.2699	Vests at date of grant
(18) Issued 28 July 2010	28/07/10	29/07/11	\$0.3232	Vests at date of grant
(19) Issued 9 March 2011	9/03/11	3/01/16	\$0.4345	Vests at date of grant
(20) Issued 9 March 2011	9/03/11	23/01/16	\$0.4263	Vests at date of grant
(21) Issued 20 June 2011	20/06/11	20/06/18	\$0.3513	Vests 20 June 2014 if performance hurdles are met

The weighted average fair value of the share options granted during the financial year is \$0.293 (2010: \$0.370). Options were priced using a binomial option pricing model except for series 21 which were valued using Monte Carlo model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market

29. Share-based payments (continued)

conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 4 years.

Inputs into the model	Option series													
	Series 8	Series 9	Series 10	Series 11	Series 12	Series 13	Series 14	Series 15	Series 16	Series 17	Series 18	Series 19	Series 20	Series 21
Grant date share price	\$ 0.470	\$ 0.300	\$ 0.330	\$ 0.520	\$ 0.840	\$ 0.510	\$ 0.670	\$ 0.790	\$ 0.660	\$ 0.660	\$ 0.660	\$ 0.645	\$ 0.645	\$ 0.450
Exercise price	\$ 0.400	\$ 0.500	\$ 0.400	\$ 0.725	\$ 0.725	\$ 0.625	\$ 0.850	\$ 0.877	\$ 0.500	\$ 0.500	\$ 0.500	\$ 0.580	\$ 0.640	\$ 0.620
Expected volatility	64%	64%	67%	84%	89%	84%	89%	89%	87%	87%	87%	86%	86%	80%
Option life	4 year	4 year	4.4 year	4.2 year	4 year	5 year	3 year	5 year	93 days	187 days	1 year	4.8 year	4.9 year	5 year
Dividend yield	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk-free interest rate	5.78%	5.67%	5.07%	5.12%	5.10%	5.17%	5.12%	5.36%	4.84%	4.84%	4.84%	5.05%	5.05%	5.23%

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the year:

	2011		2010	
	No. of options	Weighted average exercise price	No. of options	Weighted average exercise price
		\$		\$
Balance at the beginning of the year	9,400,000	0.500	4,400,000	0.500
Granted during the year	2,199,597	0.615	7,000,000	0.562
Exercised during the year	-	0.500	(2,000,000)	0.500
Balance at the end of the year	11,599,597	0.522	9,400,000	0.500
Excercisable at the end of the year	11,599,597	0.522	9,400,000	0.500

The share options outstanding at the end of the financial year had a weighted average exercise price of \$0.522 (2010: \$0.50), and an average remaining contractual life of 1,689 days (2010: 1,531 days).

30. Key management personnel compensation

Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

- Mr J.D. McKerlie (Chairman)
- Mr B.W. Lingo (Managing director)
- Mr B.K. Choo (Non-executive director)
- Mr. H. R. B. Wecker (Non-executive director)
- Mrs F.A Robertson (Non-executive director)
- Mr J.S Whaley (Chief strategy and development officer)
- Mr D. Evans (Chief technical officer)
- Mr I.W. Bucknell (Chief financial officer)

30. Key management personnel compensation (continued)

Key management personnel compensation

The aggregate compensation made to key management personnel of the Group is set out below:

	2011	2010
	\$	\$
Short-term employee benefits	1,787,374	1,334,997
Post-employment benefits	86,815	89,850
Share-based payment	2,464	2,603,100
	1,876,653	4,027,947

The compensation of each member of the key management personnel of the Group is set out below:

	Short-term employee benefits				Post employment benefits	Other long-term employee benefits	Share-based payment	Total
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation		Options	
2011	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
Mr J.D. McKerlie	91,743	-	-	4,234	8,257	-	704	104,938
Mr B.K. Choo	45,872	-	-	-	4,128	-	352	50,352
Mrs F.A. Robertson	45,872	-	-	-	4,128	-	352	50,352
Mr H.R.B. Wecker	45,872	-	-	-	4,128	-	352	50,352
Executive officers								
Mr B.W. Lingo	413,629	94,960	-	-	15,199	-	704	524,492
Mr J.S. Whaley	332,788	67,403	-	-	15,199	-	-	415,390
Mr D. Evans	282,408	53,159	-	15,000	18,583	-	-	369,150
Mr I.W. Bucknell	237,278	57,156	-	-	17,191	-	-	311,625
	1,495,462	272,678	-	19,234	86,813	-	2,464	1,876,651

	Short-term employee benefits				Post employment benefits	Other long-term employee benefits	Share-based payment	Total
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation		Options	
2010	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
Mr J.D. McKerlie	88,381	-	-	22,282	7,954	-	619,200	737,817
Mr B.K. Choo	47,664	-	-	-	2,336	-	412,800	462,800
Mr P.A. Wicks	10,252	-	-	-	-	-	-	10,252
Mrs F.A. Robertson	34,404	-	-	-	3,096	-	264,000	301,500
Mr H.R.B. Wecker	34,404	-	-	-	3,096	-	264,000	301,500
Executive officers								
Mr B.W. Lingo	357,056	-	-	22,282	21,642	-	182,400	583,380
Mr J.S. Whaley	190,348	-	-	-	12,151	-	402,000	604,499
Mr D. Evans	76,264	-	-	-	4,916	-	384,700	465,880
Mr I.W. Bucknell	224,219	-	-	-	16,194	-	74,000	314,413
Mr C.J. Carty	205,161	-	-	22,282	18,465	-	-	245,908
	1,268,153	-	-	66,846	89,850	-	2,603,100	4,027,949

The remuneration of directors and key executives is determined by the remuneration committee having regard to performance of individuals and market trends.

31. Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 26 to the financial statements.

(b) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 30 to the financial statements.

Share options of Drillsearch Energy Limited

	Balance at 1 July No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested but not exerci- sable No.	Vested and exerci- sable No.	Options vested during year No.
2011									
Mr J.D. McKerlie	1,800,000	342,742	-	-	2,142,742	1,800,000	-	1,800,000	-
Mr I.W. Bucknell	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000	-
Mr. B. W. Lingo	1,200,000	342,742	-	-	1,542,742	1,200,000	-	1,200,000	-
Mr. B. K. Choo	800,000	171,371	-	-	971,371	800,000	-	800,000	-
Mr. R. Wecker	800,000	171,371	-	-	971,371	800,000	-	800,000	-
Ms. F. Robertson	800,000	171,371	-	-	971,371	800,000	-	800,000	-
Mr. J. Whaley	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000	-
Mr. D. Evans	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000	-
2010									
Mr J.D. McKerlie	600,000	1,200,000	-	-	1,800,000	1,800,000	-	1,800,000	1,200,000
Mr I.W. Bucknell	800,000	200,000	-	-	1,000,000	1,000,000	-	1,000,000	200,000
Mr. B. W. Lingo	-	1,200,000	-	-	1,200,000	1,200,000	-	1,200,000	1,200,000
Mr. B. K. Choo	-	800,000	-	-	800,000	800,000	-	800,000	800,000
Mr. R. Wecker	-	800,000	-	-	800,000	800,000	-	800,000	800,000
Ms. F. Robertson	-	800,000	-	-	800,000	800,000	-	800,000	800,000
Mr. J. Whaley	-	1,000,000	-	-	1,000,000	1,000,000	-	1,000,000	1,000,000
Mr. D. Evans	-	1,000,000	-	-	1,000,000	1,000,000	-	1,000,000	1,000,000
Mr P.A. Wicks	600,000	-	600,000	-	600,000	600,000	-	600,000	-

No amounts remain unpaid on the options exercised since the financial year. Further details of the share options granted during the 2011 and 2010 financial years are contained in notes 29 and 30 to the financial statements.

Transactions between Drillsearch Energy Limited and its related parties

During the financial year, the following transactions occurred between the Company and its other related parties:

- Drillsearch Energy Limited recognised tax payable in respect of the tax liabilities of its wholly-owned Australian subsidiaries. Payments to/from the company are made in accordance with the terms of the tax funding arrangement.

	2011	2010
	\$	\$
Website development costs paid to Bullseye Asia Pacific Pty Ltd. The company is controlled by Mr. J. D.Mckerlie	23,245	-
Legal fee paid on behalf of the chairman, Mr J.D. Mckerlie towards settlement of court proceedings	-	135,619
Legal fee paid on behalf of the non-executive director, Mr B.K. Choo towards settlement of court proceedings	-	76,153

31. Related party transaction (continued)

There were no related party balances outstanding at 30 June 2011.

Transactions and balances between the company and its subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

(c) Parent entities

The parent entity in the Group is Drillsearch Energy Limited.

32. Remuneration of auditors

	2011	2010
	\$	\$
Auditors of parent entity		
Audit or review of the financial report	141,724	161,295
Other professional services	10,500	-
	152,224	161,295
Related practice of the parent entity auditor		
Other non-audit services	3,113	14,704
	3,113	14,704
Other auditors		
Audit or review of the financial report	-	108,786
Preparation of the tax return	-	-
Other non-audit services	-	-
	-	108,786
Related practice of the other auditor		
Other non-audit services	-	-

The auditor of Drillsearch Energy Limited is Deloitte Touche Tohmatsu.

33. Subsequent events

Subsequent to balance date the following material events have occurred:

- On 19 July 2011, the company announced a new oil field discovery at Arno-1 in PEL 91 on the Western Flank Oil Fairway. The Arno-1 exploration well has discovered significant oil pay zones in McKinlay, Namur and Birkhead reservoirs. Additional testing and evaluation of the McKinlay-Namur and Birkhead Formation pay zones is required to estimate ultimate recoveries.
- On 25 July 2011, the company announced the grant of options to employees.
- On 26 July 2011, the company appointed Mr I.W. Bucknell as a second company secretary.
- On 27 July 2011, Drillsearch announced a \$130m strategic joint venture with global energy company BG Group PLC to explore and develop shale gas in the ATP940 permit, in the Cooper Basin. Under the Joint Venture, QGC Pty Limited (QGC) (a 100% BG

33. Subsequent events (continued)

Group subsidiary) agreed to acquire a 60% interest in ATP 940P. QGC will fund \$90.0 m of the first \$100.0 m of the five well exploration, appraisal and pilot production program and thereafter QGC and the Company will fund the program on 60:40 basis. In addition, QGC was issued 31.6 million Drillsearch share options (approximately 9.9% of company) at a strike price of 62 cents per share.

- On 1 August 2011, the company announced a new 2 million barrel oil field discovery at Bauer-1. Beach Energy Limited (the operator) advised that the preliminary volumetric assessment suggests Reserves of up to 2 million barrels of gross recoverable oil.
- On 19 August 2011, the company announced that following evaluation of the results from wire line logs at Searcy-1 that the well was not commercial and would be plugged and abandoned.

34. Parent entity disclosures

34.1 Financial position

	2011	2010
	\$	\$
Assets		
Current assets	69,313,049	9,370,138
Non-current assets	56,096,039	68,924,229
Assets classified as held for sale	-	2,835,849
Total assets	125,409,088	81,130,216
Liabilities		
Current liabilities	4,553,055	3,053,941
Non-current liabilities	2,000,298	1,448,164
Assets classified as held for sale	-	1,004,881
Total liabilities	6,553,353	5,506,986
Equity		
Issued capital	158,766,964	110,489,587
Reserves	3,927,054	3,606,343
Retained earnings	(43,838,283)	(38,472,700)
Total equity	118,855,735	75,623,230

34. Parent entity disclosures (continued)

34.2 Financial performance

	2011	2010
	\$	\$
Profit/ (loss) for the year	(5,365,583)	(22,448,792)
Other comprehensive income	-	-
Total comprehensive income	(5,365,583)	(22,448,792)

34.3 Commitments for expenditure

	2011	2010
	\$	\$
Capital expenditure commitments		
<u>Oil and gas properties</u>		
Not longer than 1 year	2,399,550	4,209,653
Longer than 1 year and not longer than 5 years	9,204,700	5,226,417
Longer than 5 years	-	-
	11,604,250	9,436,070
Operating lease commitments (office rental)		
Not longer than 1 year	371,556	186,585
Longer than 1 year and not longer than 5 years	928,890	746,339
Longer than 5 years	-	-
	1,300,446	932,924

Additional stock exchange information as at 25 August 2011

Number of holders of equity securities

Ordinary share capital

305,176,742 fully paid ordinary shares are held by 5,313 individual shareholders.

All issued ordinary shares carry one vote per share; however, partly paid shares do not carry the rights to dividends.

Options

45,864,434 options are held by 23 individual option holders.

Options do not carry a right to vote.

Distribution of holders of equity securities

	Total holders	Fully paid ordinary shares	% of Issued Capital
1 - 1,000	1,122	509,718	0.17
1,001 - 5,000	1,701	4,760,740	1.56
5,001 - 10,000	920	7,171,558	2.35
10,001 - 100,000	1,529	49,070,514	16.08
100,001 and over	210	243,664,212	79.84
	5,313	305,176,742	100
Holding less than a marketable parcel	939	326,718	

Twenty largest holders of quoted equity securities

Ordinary Shareholders	Fully paid ordinary shares	
	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	44,319,388	14.52
NATIONAL NOMINEES LIMITED	30,411,778	9.97
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	27,140,058	8.89
UOB KAY HIAN PRIVATE LIMITED <CLIENTS A/C>	16,558,740	5.43
CITICORP NOMINEES PTY LIMITED	11,145,098	3.65
UBS NOMINEES PTY LTD	8,044,541	2.64
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,921,907	2.60
COGENT NOMINEES PTY LIMITED	6,695,025	2.19
MR YEW MENG CHAY	4,868,786	1.60
BOUNTY OIL & GAS NL	4,677,976	1.53
NEFCO NOMINEES PTY LTD	4,354,472	1.43
DMG & PARTNERS SECURITIES PTE LTD <CLIENTS A/C>	4,239,853	1.39
PHILLIP SECURITIES PTE LTD <CLIENT ACCOUNT>	4,198,322	1.38
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	3,611,500	1.18
MR SWEE POOK TEH	2,650,000	0.87
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,520,313	0.83
MR KOCK KENG LIEM	2,450,000	0.80
CIMB SECURITIES (SINGAPORE) PTE LTD <CLIENT A/C>	2,106,270	0.69
TRADITIONAL OIL EXPLORATION PROPRIETARY LIMITED	2,053,464	0.67
MR YOU PING CHIENG	1,797,145	0.59
	191,764,636	62.85

**Additional stock exchange information as at 25 August 2011
(continued)**

Company Secretary

Jean Moore
Ian Bucknell

Registered Office

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55 Clarence Street
Sydney NSW 2000
PH: 02 9249 9600

Share registry

Computershare

Schedule of tenements

Name of Joint Venture	Operator	Principal activity	Ownership interest	
			2011 %	2010 %
Oil				
ATP 539P (Eromanga) ¹	Great Artesian Oil & Gas Ltd	Exploration	100%	50%
ATP 549P - Cypress Block (Eromanga)	Australian Gasfields Limited	Exploration	40%	40%
ATP 549P - West Block (Eromanga) ¹	Great Artesian Oil & Gas Ltd	Exploration	67%	25%
ATP 657P (Eromanga) ²	Great Artesian Oil & Gas Ltd	Exploration	100%	100%
ATP 783P - Chandos Block (Eromanga) ²	Drillsearch Energy Limited	Exploration	100%	100%
ATP 917P (Eromanga) ²	Circumpacific Energy Corporation ³	Exploration	100%	100%
ATP 920P (Eromanga) ²	Circumpacific Energy Corporation ³	Exploration	100%	100%
ATP 924P (Eromanga) ²	Circumpacific Energy Corporation ³	Exploration	100%	100%
ATP 956P (Eromanga) ²	Circumpacific Energy Corporation ³	Exploration	100%	100%
ATP 959P (Eromanga) ²	Circumpacific Energy Corporation ³	Exploration	100%	100%
PEL 91 (Cooper)	Beach Energy Limited	Exploration	60%	60%
PPL 212 (Cooper)	Beach Energy Limited	Production	60%	60%
ATP 299P & PL's - Tintaburra (Eromanga)	Santos Limited	Production	11%	11%
Wet Gas				
ATP 927P (Eromanga) ²	Drillsearch Energy Limited	Exploration	100%	100%
ATP 932P (Eromanga) ²	Circumpacific Energy Corporation ³	Exploration	100%	100%
PEL 106A (Cooper)	Great Artesian Oil & Gas Ltd	Exploration	100%	100%
PEL 106B (Cooper)	Beach Energy Limited	Development	50%	50%
PEL 107 (Cooper)	Beach Energy Limited	Exploration	60%	60%
PEL 91 (Cooper)	Beach Energy Limited	Exploration	60%	60%
PELA 513 (Cooper)	Great Artesian Oil & Gas Ltd	Exploration	100%	100%
PRL 25 Middleton (Cooper) ⁷	Beach Energy Limited	Development	50%	50%
Udacha Unit - PEL 91 and PEL 106 (Cooper)	Beach Energy Limited	Production	75%	75%
Unconventional				
ATP 940P (Eromanga) ^{2/4}	Circumpacific Energy Corporation ³	Exploration	100%	100%
PEL 106A (Cooper)	Great Artesian Oil & Gas Ltd	Exploration	100%	100%
PEL 106B (Cooper)	Beach Energy Limited	Exploration	50%	50%
PEL 107 (Cooper)	Beach Energy Limited	Exploration	60%	60%
PELA 513 (Cooper)	Great Artesian Oil & Gas Ltd	Exploration	100%	100%
Divestment				
VIC/P63 (Gippsland) ⁵	Great Artesian Oil & Gas Ltd	Exploration	0%	100%
VIC/P64 (Gippsland) ⁵	Great Artesian Oil & Gas Ltd	Exploration	0%	100%
T/46P (Gippsland) ⁵	Great Artesian Oil & Gas Ltd	Exploration	0%	100%
PL 5 - Pickanjinie (Surat)	Santos Limited	Production	75%	75%
Talbot Lake (Canada)	Drillsearch Energy (Canada) Inc. ⁶	Production	100%	100%
Talbot Lake (Canada)	Energy Venture Inc.	Production	25%	25%

Notes:

1. Drillsearch announced the acquisition of Traditional Oil Explorations Pty Limited's interest in ATP 539 and ATP 549 West on 23 December 2010.
2. Permits subject to grant.
3. Circumpacific Energy Corporation has signed agreements to transfer ownership and operatorship of these permits to Drillsearch and its subsidiaries upon grant.
4. Drillsearch signed a farmout agreement with QGC as announced on 27 July 2011. Drillsearch ownership post farmout agreement, upon grant will be 40%.
5. Drillsearch announced the sale of these Gippsland permits to Larus Energy Pty Ltd on 18 February 2011. This sale has not yet been finalised (see note 12).
6. Drillsearch Energy (Canada) Inc. is a 100% owned subsidiary of Drillsearch Energy Limited.
7. The PRL 25 for Middleton was superseded by the grant of PPL 239 in August 2011.