

DRILLSEARCH ENERGY LIMITED
ABN 73 006 474 844

Notice of Annual General Meeting and Explanatory Statement

2011 ANNUAL REPORT:
<http://www.drillsearch.com.au/presentations-reports>

10.00am
Wednesday, 23 November 2011
Museum of Sydney
AGL Theatre, Level 2
Corner of Phillip and Bridge Streets, Sydney NSW

**THIS IS AN IMPORTANT DOCUMENT
AND REQUIRES YOUR ATTENTION**

This document does not take into account your individual circumstances. If you are in doubt about how to deal with it, please consult your financial or other professional adviser.

Drillsearch

Notice of Annual General Meeting

NOTICE is given that the Annual General Meeting of Drillsearch Energy Limited (ABN 73 006 474 844) ("**Company**") will be held at the Museum of Sydney, AGL Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, New South Wales at 10.00am (Sydney time) on Wednesday, 23 November 2011.

ORDINARY BUSINESS

1. Receipt of the Company's Financial Report for the year ended 30 June 2011

To receive and consider the Company's Financial Report, the Directors' Report and the Auditor's Report for the year ended 30 June 2011.

2. Remuneration Report

To put the following Resolution to a non-binding advisory vote:

"That the Remuneration Report in the Company's Annual Report be adopted."

Note: The vote on item 2 will be advisory only and will not bind the Directors or the Company.

The Board unanimously recommends that Shareholders vote in favour of this resolution.

3. Re-elect Dato' Choo Beng Kai as a Director of the Company

To elect Dato' Choo Beng Kai as a Director of the Company, who retires in accordance with the Constitution of the Company, and, being eligible, offers himself for re-election.

The Board (with Dato' Choo Beng Kai abstaining) unanimously recommends that Shareholders vote in favour of this resolution.

4. Re-elect Ms Fiona Robertson as a Director of the Company

To elect Ms Fiona Robertson as a Director of the Company, who retires in accordance with the Constitution of the Company, and, being eligible, offers herself for re-election.

The Board (with Ms Fiona Robertson abstaining) unanimously recommends that Shareholders vote in favour of this resolution.

SPECIAL BUSINESS

5. Approval to refresh the Company's 15% placement capacity

To approve for all purposes, including for the purpose of Listing Rule 7.4, issues of ordinary shares and options over ordinary shares that have occurred in the 12 months prior to 23 November 2011 not having been previously approved by Shareholders for the purposes of ASX Listing Rule 7.4.

The Board unanimously recommends that Shareholders vote in favour of this resolution.

6. Approval of grant of options to Director under the Long Term Incentive Plan 2011 – Mr Jim McKerlie (Chairman)

"That for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act and for all other purposes, approval be given for the grant of 781,596 options over ordinary shares by the Company to Mr Jim McKerlie (or his permitted nominee) in accordance with the Long Term Incentive Plan 2011 and otherwise in accordance with the terms and conditions as set out in the Explanatory Memorandum attached to this Notice of General Meeting."

7. Approval of grant of options to Director under the Long Term Incentive Plan 2011 – Mr Bradley Lingo (Managing Director)

"That for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act and for all other purposes, approval be given for the grant of 1,231,596 options over ordinary shares by the Company to Mr Bradley Lingo (or his permitted nominee) in accordance with the Long Term Incentive Plan 2011 and otherwise in accordance with the terms and conditions as set out in the Explanatory Memorandum attached to this Notice of General Meeting."

8. Approval of grant of options to Director under the Long Term Incentive Plan 2011 – Dato' Choo Beng Kai (Non Executive Director)

"That for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act and for all other purposes, approval be given for the grant of 390,798 options over ordinary shares by the Company to Dato' Choo Beng Kai (or his permitted nominee) in accordance with the Long Term Incentive Plan 2011 and otherwise in accordance with the terms and conditions as set out in the Explanatory Memorandum attached to this Notice of General Meeting."

9. Approval of grant of options to Director under the Long Term Incentive Plan 2011 – Ms Fiona Robertson (Non Executive Director)

"That for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act and for all other purposes, approval be given for the grant of 390,798 options over ordinary shares by the Company to Ms Fiona Robertson (or her permitted nominee) in accordance with the Long Term Incentive Plan 2011 and otherwise in accordance with the terms and conditions as set out in the Explanatory Memorandum attached to this Notice of General Meeting."

10. Approval of grant of options to Director under the Long Term Incentive Plan 2011 – Mr Ross Wecker (Non Executive Director)

"That for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act and for all other purposes, approval be given for the grant of 390,798 options over ordinary shares by the Company to Mr Ross Wecker (or his permitted nominee) in accordance with the Long Term Incentive Plan 2011 and otherwise in accordance with the terms and conditions as set out in the Explanatory Memorandum attached to this Notice of General Meeting."

VOTING EXCLUSION STATEMENT

The Company will disregard any votes cast on the following Resolutions by the following persons:

RESOLUTION	PERSONS EXCLUDED FROM VOTING
Resolution 2 – Adoption of the Remuneration Report	A member of the Key Management Personnel ("KMP") named in the Remuneration Report or that KMP's closely related party.
Resolution 5 – Approval to refresh the Company's 15% placement capacity (ASX Listing Rule 7.4)	Any person who participated in the issues of ordinary shares and options over ordinary shares described in section 5 of the Explanatory Memorandum and any associates of any such person.
Resolution 6 – Approval of Grant of Options to Director under the Long Term Incentive Plan 2011 – Mr Jim McKerlie (Chairman)	<ul style="list-style-type: none"> Any Director (except a Director who is ineligible to participate in any employee incentive scheme in relation to the Company), and any associates of any such person. KMP or a KMP's closely related party where the vote is cast as a proxy unless the vote is cast as a proxy for a person entitled to vote in accordance with a direction on the proxy form.
Resolution 7 – Approval of Grant of Options to Director under the Long Term Incentive Plan 2011 – Mr Bradley Lingo (Managing Director)	<ul style="list-style-type: none"> Any Director (except a Director who is ineligible to participate in any employee incentive scheme in relation to the Company), and any associates of any such person. KMP or a KMP's closely related party where the vote is cast as a proxy unless the vote is cast as a proxy for a person entitled to vote in accordance with a direction on the proxy form.
Resolution 8 – Approval of Grant of Options to Director under the Long Term Incentive Plan 2011 – Dato' Choo Beng Kai (Non Executive Director)	<ul style="list-style-type: none"> Any Director (except a Director who is ineligible to participate in any employee incentive scheme in relation to the Company), and any associates of any such person. KMP or a KMP's closely related party where the vote is cast as a proxy unless the vote is cast as a proxy for a person entitled to vote in accordance with a direction on the proxy form.
Resolution 9 – Approval of Grant of Options to Director under the Long Term Incentive Plan 2011 – Ms Fiona Robertson (Non Executive Director)	<ul style="list-style-type: none"> Any Director (except a Director who is ineligible to participate in any employee incentive scheme in relation to the Company), and any associates of any such person. KMP or a KMP's closely related party where the vote is cast as a proxy unless the vote is cast as a proxy for a person entitled to vote in accordance with a direction on the proxy form.
Resolution 10 – Approval of Grant of Options to Director under the Long Term Incentive Plan 2011 – Mr Ross Wecker (Non Executive Director)	<ul style="list-style-type: none"> Any Director (except a Director who is ineligible to participate in any employee incentive scheme in relation to the Company), and any associates of any such person. KMP or a KMP's closely related party where the vote is cast as a proxy unless the vote is cast as a proxy for a person entitled to vote in accordance with a direction on the proxy form.

However, the entity need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated at Sydney, on the 21 October 2011

By order of the Board



Jean Moore
Company Secretary

2011 Annual Report:

The 2011 Annual Report is available on the Company's Website:
www.drillsearch.com.au
 and
<http://www.drillsearch.com.au/presentations-reports>

Proxies

1. A shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy or not more than two proxies to attend and vote instead of the shareholder.
2. Where two proxies are appointed, the Proxy Form may specify the proportion, or the number, of votes that the proxy may exercise, and if it does not do so the proxy may exercise half of the votes.
3. A shareholder can appoint any other person to be their proxy. A proxy need not be a shareholder of the Company. The proxy appointed can be described in the Proxy Form by an office held e.g. "the Chair of the Meeting".
4. In the case of shareholders who are individuals, the Proxy Form must be signed:
 - (i) if the shares are held by one individual, by that shareholder;
 - (ii) if the shares are held in joint names, by any one of them.
5. In the case of shareholders who are companies, the Proxy Form must be signed:
 - (i) if it has a sole director who is also sole secretary, by that director (and stating the fact next to, or under the signature on the Proxy Form);
 - (ii) in the case of any other company by either two directors or a director and secretary.

The use of the common seal of the company, in addition to those required signatures, is optional.

6. If the person signing the Proxy Form is doing so under a power of attorney, or is an officer of a company outside those referred to above but authorised to sign the Proxy Form, the power of attorney or other authorisation (or a certified copy of it), as well as the Proxy Form, must be received by the Company by the time and at the place specified below.
7. A Proxy Form accompanies this Notice of Meeting and contains additional information. To be valid, duly completed Proxy Forms and any proxy appointment authorities under which a Proxy Form is signed, such as a power of attorney, must be received by the Company no later than 48 hours before the time in Sydney of the commencement of the meeting and must be lodged with the Company either:
 - in person at the Registered Office at Level 16, 55 Clarence Street Sydney NSW 2000 Australia or at the Share registry at Computershare Investor Services Pty Ltd, Level 4, 60 Carrington Street Sydney NSW 2000 Australia; or
 - by mail to the Registered Office at Level 16, 55 Clarence Street Sydney NSW 2000 Australia or to the Share Registry at Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne VIC 3001, Australia; or

- by facsimile to 1800 783 447 or + 61 3 9473 2555 (Share Registry) or + 61 2 9249 9630 (Registered Office).
8. For the purpose of the meeting, shares in the Company will be taken to be held by those persons who are registered holders at 7.00pm (Sydney time) on Monday, 21 November 2011. Accordingly, transactions registered after that time will be disregarded in determining entitlement to attend and vote at the meeting.
 9. A quorum for a general meeting of the Company is three shareholders.
 10. The Key Management Personnel ("**KMP**") of the Company (which includes each of the Directors) and their closely related parties (such as spouse, dependent and certain other close family members as well as any companies controlled by the KMP) will not be able to vote a proxy on Item 2 and Items 6-10 unless directed how to vote. If shareholders intend to appoint a member of the KMP as a proxy, shareholders should ensure that they direct them how to vote on Item 2 and Items 6-10. If shareholders intend to appoint the Chairman of the Meeting as their proxy, shareholders can direct him or her to vote by either marking the boxes for Item 2 and Items 6-10, or by marking the Chairman's box on the proxy form (in which case the Chairman of the Meeting will vote in favour of these items of business).
 11. Attached to and forming part of this Notice of Meeting is an Explanatory Memorandum which provides shareholders with background information and further details of the resolutions to be considered at the meeting. The information provided is intended to assist shareholders in understanding the reasons for and effect of the resolutions, if passed.

EXPLANATORY STATEMENT

IMPORTANT NOTICE

This Explanatory Statement contains an explanation of, and information about, each of the resolutions to be considered at the Annual General Meeting. It is given to Drillsearch Energy Limited's Shareholders to help them determine how to vote on the matters set out in the accompanying Notice of Meeting.

Shareholders should read this Explanatory Statement in full, because individual Sections may not give a comprehensive review of the proposals contemplated. This Explanatory Statement forms part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

If in doubt about how you should vote, consult your financial or other professional adviser.

ORDINARY BUSINESS

1. Financial Report – Year ended 30 June 2011

The Corporations Act 2001 (Cth) ("**Corporations Act**") requires the Financial Report (which includes the Financial Statements and the Directors' Declaration), the Directors' Report and the Auditor's Report to be laid before the Annual General Meeting. There is no requirement either in the Corporations Act or in the Constitution of the Company for Shareholders to approve the Financial Report, the Directors' Report or the Auditor's Report. Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the Financial Report.

The Auditor will be attending the Annual General Meeting.

Shareholders are entitled to submit a written question to the Auditor prior to the Annual General Meeting provided that the question relates to:

- the content of the Auditor's Report; or
- the conduct of the audit in relation to the Annual Financial Report.

The Auditor will answer written questions submitted prior to the Annual General Meeting. All written questions must be received by the Company no later than 16 November 2011. All questions must be sent to the Company and may not be sent direct to the Auditor. The Company will then forward all questions to the Auditor.

The Auditor will also answer questions at the meeting from shareholders relevant to:

- the conduct of the audit;
- the preparation and content of the Auditor's Report;
- the accounting policies adopted by the Company in relation to the preparation of the Financial Statements; and
- the independence of the Auditor in relation to the conduct of the audit.

2. Remuneration Report

The Directors' Report for the year ended 30 June 2011 contains a Remuneration Report which sets out the policy on remuneration of the Directors of the Company and specified executives of the Company.

The Corporations Act requires that a resolution that the Remuneration Report be adopted be put to a vote. The Corporations Act expressly provides that the vote is advisory and does not bind the Directors of the Company.

Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

The Board unanimously recommends that Shareholders vote in favour of this resolution.

3. Re-election of Dato' Choo Beng Kai

Dato' Choo Beng Kai was elected by Shareholders at the 2009 Annual General Meeting. In accordance with the Company's Constitution, Dato' Choo Beng Kai is required to stand for re-election and offers himself for re-election.

Dato' Choo Beng Kai joined the family owned property development company in 1996. He later started his own company, Masmeyer Holdings Sdn Bhd in 2002 of which he is Managing Director. He has many successful years entrepreneurial experience majoring in developing and implementing innovative business concepts. These developments have led to the successful establishment of a number of businesses.

The Board (with Dato' Choo Beng Kai abstaining) unanimously recommends that Shareholders vote in favour of this resolution.

4. Re-election of Ms Fiona Robertson

Ms Fiona Robertson was elected by Shareholders at the 2009 Annual General Meeting. In accordance with the Company's Constitution, Ms Fiona Robertson is required to stand for re-election and offers herself for re-election.

Ms Fiona Robertson currently works as a consulting Chief Financial Officer in the resources sector and has a background of more than 30 years in corporate finance and the resources sector. She has extensive experience in financial reporting, international corporate finance, corporate governance and in working with emerging resource companies. Her career includes roles with Delta Gold and The Chase Manhattan Bank in New York, London and Sydney.

The Board (with Ms Fiona Robertson abstaining) unanimously recommends that Shareholders vote in favour of this resolution.

SPECIAL BUSINESS

5. Approval to refresh the Company's 15% placement capacity

Resolution 5 seeks the approval of Shareholders of the prior issues of ordinary shares and options over ordinary shares that have occurred in the 12 months prior to 23 November 2011 that have not already been approved by Shareholders for the purposes of ASX Listing Rule 7.4.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the company's issued capital at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with Shareholder approval for the purpose of ASX Listing Rule 7.1.

The Company is seeking Shareholder approval to the issues of securities described in the table below. The Board believes that it is in the best interests of the Company to maintain the ability to issue up to its full placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval so that the Company retains financial flexibility and can take advantage of commercial opportunities that may arise.

Nature of issue	Number of securities and issue price	Terms	Allotees	Use or intended use of funds raised
Issue of options pursuant to the Option Deed with QGC Pty Limited ("QGC") in connection with the transaction with QGC announced to the ASX on 27 July 2011.	31,622,454 options	Options over ordinary shares in the Company exercisable at 62 cents per share on or before 15 February 2012. Optionholders' rights may be changed to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation. The Optionholder cannot participate in new issues without exercising the option.	QGC	No funds were raised by the issue
Issue of options over ordinary shares pursuant to contract of employment on 25 July 2011.	500,000 options	Options over ordinary shares in the Company exercisable at 61 cents per share on or before 25 July 2016. Optionholders' rights may be changed to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation. The Optionholder cannot participate in new issues without exercising the option.	Lonny Baumgardner, employee of the Company	No funds were raised by the issue

The Board unanimously recommends that Shareholders vote in favour of this resolution.

6. RESOLUTIONS 6 to 10 – APPROVAL OF GRANT OF OPTIONS TO DIRECTORS UNDER THE LONG TERM INCENTIVE PLAN 2011

Resolutions 6 to 10 seek the approval of Shareholders for the grant of Options by the Company to Directors (or their permitted nominees) pursuant to the Long Term Incentive Plan 2011 for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act.

At the 17 June 2011 General Meeting of the Company, Shareholders approved the introduction of a Long Term Incentive Plan for both employees and Directors. The LTIP was the result of an extensive review of the Company's human resource management system and will help ensure that the Company's remuneration scheme aligns the interests of the Board, Senior Management and employees with those of Shareholders.

The new human resource management system was introduced in July 2011 with the determination of remuneration packages including the award of options under the LTIP to all employees of the Company. At the 17 June 2011 General Meeting of the Company, Shareholders approved an initial award of options to Directors and a further award is recommended in order to bring the Directors in line with comparative director's remuneration packages. The Board believes that having regard to the relatively modest fees payable to Directors, options provide an appropriate and meaningful incentive that is aligned with shareholder returns.

A. ASX Listing Rules requirements for Shareholder approval

ASX Listing Rule 10.14 requires Shareholder approval before the following persons can acquire securities (which include Options) in the Company under an employee incentive plan:

- (a) a Director;
- (b) an associate of a Director; and
- (c) a person whose relationship with the entity is, in the ASX's opinion, such that approval should be obtained.

The following disclosures are made for the purposes of ASX Listing Rule 10.15:

ASX Listing Rule 10.15 requirement	Relevant information															
Relationship of recipients to the Company	Each recipient of the Options under the LTIP is a Director.															
Maximum number of securities	The maximum number of Options that may be granted by the Company to: <ul style="list-style-type: none"> (a) Jim McKerlie is 781,596 Options; (b) Bradley Lingo is 1,231,596 Options; (c) Choo Beng Kai is 390,798 Options; (d) Fiona Robertson is 390,798 Options; and (e) Ross Wecker is 390,798 Options. 															
Price	Exercise Price	The exercise price for each Option is \$0.62.														
	Performance Conditions	Total shareholder return compared to ASX Energy Peer Group (25% of each grant)														
		<table border="1"> <thead> <tr> <th>Percentile</th> <th>Proportion of Awards vesting</th> </tr> </thead> <tbody> <tr> <td>Below 41st</td> <td>0%</td> </tr> <tr> <td>41st</td> <td>50%</td> </tr> <tr> <td>61st</td> <td>75%</td> </tr> <tr> <td>75th and above</td> <td>100%</td> </tr> <tr> <td>Between 41st and 61st</td> <td>Pro rata between 50% and 75%</td> </tr> <tr> <td>Between 61st and 75th</td> <td>Pro rata between 75% and 100%</td> </tr> </tbody> </table>	Percentile	Proportion of Awards vesting	Below 41st	0%	41st	50%	61st	75%	75th and above	100%	Between 41st and 61st	Pro rata between 50% and 75%	Between 61st and 75th	Pro rata between 75% and 100%
	Percentile	Proportion of Awards vesting														
	Below 41st	0%														
	41st	50%														
	61st	75%														
	75th and above	100%														
	Between 41st and 61st	Pro rata between 50% and 75%														
	Between 61st and 75th	Pro rata between 75% and 100%														
	Share price growth (75% of each grant)															
	<table border="1"> <thead> <tr> <th>Share price hurdle</th> <th>Proportion of awards vesting</th> </tr> </thead> <tbody> <tr> <td>Below \$1.00</td> <td>0%</td> </tr> <tr> <td>\$1.00</td> <td>50%</td> </tr> <tr> <td>\$1.33</td> <td>75%</td> </tr> <tr> <td>Above \$1.66</td> <td>100%</td> </tr> <tr> <td>Between \$1.00 and \$1.33</td> <td>Pro rata between 50% and 75%</td> </tr> <tr> <td>Between \$1.33 and \$1.66</td> <td>Pro rata between 75% and 100%</td> </tr> </tbody> </table>	Share price hurdle	Proportion of awards vesting	Below \$1.00	0%	\$1.00	50%	\$1.33	75%	Above \$1.66	100%	Between \$1.00 and \$1.33	Pro rata between 50% and 75%	Between \$1.33 and \$1.66	Pro rata between 75% and 100%	
Share price hurdle	Proportion of awards vesting															
Below \$1.00	0%															
\$1.00	50%															
\$1.33	75%															
Above \$1.66	100%															
Between \$1.00 and \$1.33	Pro rata between 50% and 75%															
Between \$1.33 and \$1.66	Pro rata between 75% and 100%															
Performance Period	Testing of the performance hurdles will occur 3 years from the Grant Date being 23 November 2014															
Expiry Date	23 November 2018 (7 years from the Grant Date)															

ASX Listing Rule 10.15 requirement	Relevant information
People who have received securities under the LTIP since last approved	<p>On 20 June 2011 following approval by Shareholders at the General Meeting of the Company on 17 June 2011, the following options were granted under the LTIP for no issue price:</p> <p>(a) Jim McKerlie – 342,742 Options (held by Glenluce Properties Pty Limited);</p> <p>(b) Bradley Lingo – 342,742 Options;</p> <p>(c) Choo Beng Kai – 171,371 Options;</p> <p>(d) Ross Wecker – 171,371 Options; and</p> <p>(e) Fiona Robertson – 171,371 Options.</p> <p>2,992,383 Options were granted (and no Shares have been issued) under the LTIP to employees of the Company on 25 July 2011.</p>
People who are entitled to participate in the LTIP	<p>The Board may in its absolute discretion offer an Eligible Employee the opportunity to participate in the LTIP. The names of all persons that are subject to ASX Listing Rule 10.14 who are (subject to Resolutions 6 to 10 being approved by Shareholders) entitled to receive securities under the LTIP are:</p> <p>(a) Jim McKerlie;</p> <p>(b) Bradley Lingo;</p> <p>(c) Choo Beng Kai;</p> <p>(d) Fiona Robertson;</p> <p>(e) Ross Wecker; and</p> <p>(f) any “associate” of any of the Directors named in this list in respect of Options to be granted to a Director. Each Director is permitted to have their Options issued to a nominee.</p>
Terms of any loan in relation to the acquisition of Options	There are no loans advanced to the Directors in respect to the acquisition of the Options.
Date of issue	The Board approved the grant of Options under the LTIP on 28 September 2011, subject to Resolutions 6 to 10 being passed by the Shareholders at the Annual General Meeting. Should these resolutions be passed the Options will be issued to Directors as soon as possible after the date of the Annual General Meeting anticipated to be 23 November 2011 (or in any case within 12 months of the date of the Annual General Meeting).
Voting exclusion statement	A voting exclusion statement is contained on page 3 of this Notice of Annual General Meeting.

B. Corporations Act requirements for Shareholder approval

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a Related Party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the exceptions to the provisions; or
- (b) prior Shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, each Director is a Related Party of the Company and the proposed grant of Options to the Directors constitute the giving of a financial benefit. Therefore, the granting of Options to Directors pursuant to the LTIP require Shareholder approval.

The following disclosures are made for the purposes of Chapter 2E of the Corporations Act (in particular section 219):

1.1 Identity of the Related Party

The Related Parties to whom Resolution 4 would permit financial benefits to be given are:

- (a) Jim McKerlie – Non-executive Chairman;

- (b) Bradley Lingo – Managing Director;
- (c) Choo Beng Kai – Non-executive Director;
- (d) Fiona Robertson – Non-executive Director; and
- (e) Ross Wecker – Non-executive Director.

1.2 The nature of the financial benefit

The nature of the financial benefit to be given to those persons listed above is the granting of a total number of 3,185,586 Options for no issue price.

(a) Number of Options to be granted

The number of Options to be granted to each Director is set out in section 6A of this Explanatory Memorandum.

(b) Terms of the Options

The terms of the Options to be granted to each Director are set out in detail in section section 6A of this Explanatory Memorandum.

(c) Why the Options are to be granted

The primary purpose of the grant of Options to the Directors under the LTIP is to provide an incentive to the Directors to strive to meet the Company's performance objectives. Given this purpose, the Directors do not consider that there is any opportunity cost or benefit foregone to the Company in granting the Options. The grant of Options (and the subsequent issue of Shares if certain Performance Conditions are met) to the Directors is a more cost effective incentive for the Company as opposed to the payment of cash consideration. Furthermore the Board believes that having regard to the relatively modest fees payable to Directors, Options provide an appropriate and meaningful incentive to Directors that is aligned with Shareholder returns.

(d) Why the number and specified value of the Options were chosen

The Board believes that the number and value of the Options to be granted provides appropriate incentive for Directors without undue cost or expense to the Company and Shareholders.

1.3 Directors recommendation to Shareholders and reason

The Directors decline to make a recommendation to Shareholders in relation to Resolutions 6 to 10 because they have a material personal interest in the outcome of those resolutions in that they will receive Options under the LTIP if those resolutions are passed.

Consistent with ASIC guidance, the Directors consider it good practice not to make a recommendation on resolutions for other Director's remuneration as there may be a conflict of interest.

Although the Directors decline to make a recommendation to Shareholders in relation to Resolutions 6 to 10, as discussed in section 6 of this Explanatory Memorandum, the Board has introduced the LTIP as it believes it is in the best interests of the Company to align the interests of key employees and Directors with the performance of the Company.

1.4 Director's interest in the outcome

Each Director has a material personal interest in the outcome of Resolutions 6 to 10 in that they will receive that number of Options (as set out in section 6A) under the LTIP if Resolutions 6 to 10 are passed.

Each Director was present and voted at the Board meeting when the adoption of the LTIP was approved. The Board's decision to grant the Options to Directors was made subject to Shareholder approval being sought under Chapter 10 of the ASX Listing Rules and Chapter 2E of the Corporations Act.

1.5 Other

(a) All information reasonably required

Other than the information specified in this Explanatory Memorandum, the Directors are not aware of any other information that would be reasonably required by the Shareholders in order to decide whether it is in the best interests of the Company to pass Resolutions 6 to 10.

(b) Valuation of the financial benefit

A valuation of the options to be granted under the LTIP was done by Ernst & Young on 20 June 2011 and based on that valuation, the 3,185,586 Options to be issued pursuant to Resolutions 6 to 10 were attributed a total value of \$708,476. The valuation was based on the following assumptions.

Key assumptions	
Illustrative Grant Date	20 June 2011
Start of performance period	20 June 2011
Testing date	20 June 2014
Expiry date	20 June 2018
Share price at the illustrative grant date	\$0.45
Exercise Price	\$0.62
Expected life	5.0 years
Volatility	80%
Risk free interest rate	4.79%
Dividend yield	0%

Based on the valuation conducted by Ernst & Young on 20 June 2011, the estimated total value of the Options granted to the Directors is as follows:

Director	Number of Options	Value of the Options
Jim McKerlie	781,596	\$173,827
Bradley Lingo	1,231,596	\$273,907
Choo Beng Kai	390,798	\$86,914
Ross Wecker	390,798	\$86,914
Fiona Robertson	390,798	\$86,914
TOTAL	3,185,586	\$708,476

The value of the Options has been derived using the "Monte-Carlo simulation" valuation method in accordance with applicable accounting standards.

(c) Disclosure of the Directors' total remuneration package

Details of the Directors' current remuneration (including superannuation) is as set out in the below table. The total value of Directors' remuneration (including the value of the Options proposed to be granted under the LTIP) is as set out in column 4 of the below table:

Director	Remuneration p.a. (\$)	Value of the Options	Total value of remuneration including the value of the Options
Jim McKerlie	\$100,000	\$173,827	\$273,827
Bradley Lingo	\$500,000 (plus \$49,088 Short Term Incentive for Financial Year ended 30 June 2011)	\$273,907	\$822,995
Choo Beng Kai	\$50,000	\$86,914	\$136,914
Fiona Robertson	\$50,000	\$86,914	\$136,914
Ross Wecker	\$50,000	\$86,914	\$136,914

(d) Related party's existing interest

Details of the Directors' existing interest in the Company are as follows:

Director	Existing number of Shares held	Existing number of options over ordinary shares held in addition to the Options	Existing voting power as at the ASIC Lodgement Date
Jim McKerlie	521,150	2,142,742	0.17%
Bradley Lingo	106,375	1,542,742	0.03%
Choo Beng Kai	2,167,550	971,371	0.71%
Fiona Robertson	84,500	971,371	0.03%
Ross Wecker	34,500	971,371	0.01%

(e) Dilutionary effect of the grant of Options on existing member's interests

At the ASIC Lodgement Date, the capital structure of the Company is as set out in column 2 in the below table. Based on the following assumptions:

- no more Shares are issued by the Company and no existing options are exercised;
- Resolutions 6 to 10 of the Notice of Meeting are passed;
- all the Performance Conditions attached to the Options granted to the Directors pursuant to the LTIP are satisfied; and
- all of the Options granted to Directors pursuant to Resolutions 6 to 10 are exercised by the Directors to acquire Shares in the Company, (**Assumptions**), the issued capital of the Company will be as set out in column 3 in the table below:

Capital	Number of Shares (as at ASIC Lodgement Date)	Number of Shares on exercise of Options (based on Assumptions)
Ordinary shares	305,176,742	308,362,328
28/11/12 50 cent options	1,400,000	1,400,000
12/08/12 40 cent options	150,000	150,000
10/11/13 40 cent options	1,200,000	1,200,000
30/11/13 72.5 cent options	3,600,000	3,600,000
30/09/14 62.5 cent options	1,000,000	1,000,000
02/03/13 85 cent options	200,000	200,000
15/03/15 87.7 cent options	1,000,000	1,000,000
03/01/16 58 cent options	500,000	500,000
23/01/16 64 cent options	500,000	500,000
20/06/18 62 cent options	1,199,597	1,199,597
25/07/18 62 cent options	2,992,383	2,992,383
25/07/16 61 cent options	500,000	500,000
15/02/2012 62 cent options	31,622,454	31,622,454

Based on the Assumptions, as a result of the exercise of the Options proposed to be granted to Directors, the Company's issued share capital will increase by 3,185,586 Shares which equates to an increase of approximately 1.04% of the Company's issued capital as at the ASIC Lodgement Date.

Accordingly, the Board believes there will be no material dilution to Shareholders as a result of the exercise of Options by Directors.

2. DEFINITIONS

A\$ or AUD or \$ means Australian dollars, the lawful currency of Australia.

ASIC means the Australian Securities and Investments Commission.

ASIC Lodgement Date means the date this Notice General Meeting was lodged with ASIC, being 29 September 2011.

associate means has the meaning given to that term under section 11 and sections 13 to 17 of the Corporations Act. Section 13 is to be applied as if it was not confined to associate references occurring in Chapter 7 of the Corporations Act.

ASX means ASX Limited ABN 98 008 624 691.

ASX Energy Peer Group a group of approximately 128 companies listed on the ASX Energy Index.

ASX Listing Rules means, the listing rules of ASX as amended from time to time, except to the extent of any express written waiver by ASX in their application to the Company, and ASX Listing Rule or Listing Rule means any one of them.

Company means Drillsearch Energy Limited (ABN 73 006 474 844).

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Eligible Employee means an employee or director of the Company invited by the Board to participate in the LTIP.

Annual General Meeting means the general meeting of Shareholders convened by this Notice, to be held at the Museum of Sydney, AGL Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney NSW on Wednesday, 23 November 2011, commencing at 10.00am (Sydney time).

Grant Date means the date that Options are recorded as having been issued to the Participant under the LTIP.

LTIP means the Long Term Incentive Plan 2011.

Notice means the Notice of Annual General Meeting of which this Explanatory Memorandum forms part.

Option means an option to acquire one Share in the Company under the LTIP pursuant to Resolutions 6 to 10 of the Notice.

Option Agreement means an agreement between the Company and the Participant which sets out the terms of the Options.

Participant means:

- (a) an Eligible Employee who accepts an offer to participate in the LTIP; or
- (b) a Director who, subject to express Shareholder approval being obtained (pursuant to the related party provisions in the ASX Listing Rules and the Corporations Act) accepts an offer to participate in the LTIP.

Performance Condition means the condition (if any) prescribed by the Board and set out in the Participant's Option Agreement in respect to an Option granted to the Participant that must be satisfied before that Option can be exercised.

Related Party means a "related party" as defined in section 9 of the Corporations Act.

Resolutions means the resolutions proposed in the Notice and Resolution means any one of them.

Shareholders means the members of the Company who are registered as the holders of one or more of the Shares as at the relevant time and Shareholder means any one of them.

Shares means fully paid ordinary shares in the capital of the Company and Share means any one of them.

Drillsearch

Drillsearch Energy Limited

ABN 73 006 474 844

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

000001 000 DLS
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form



Vote online or view the annual report, 24 hours a day, 7 days a week:

www.investorvote.com.au



Cast your proxy vote



Access the annual report



Review and update your securityholding

Your secure access information is:

Control Number: 999999

SRN/HIN: 1999999999

PIN: 99999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10.00 am (AEDT) on Monday 21 November 2011

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

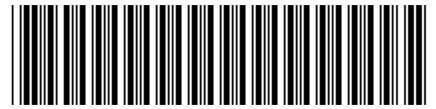
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** →

MR SAM SAMPLE
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Drillsearch Energy Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Drillsearch Energy Limited to be held at the Museum of Sydney, AGL Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, New South Wales at 10.00 am on Wednesday, 23 November 2011 and at any adjournment of that meeting.

Important for Items 2, 6, 7, 8, 9 and 10 - If the Chairman of the Meeting is your proxy or is appointed as your proxy by default
 By marking this box, you are directing the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on Items 2, 6, 7, 8, 9 and 10 as set out below and in the Notice of Meeting. If you do not mark this box, and you have not directed your proxy how to vote on Items 2, 6, 7, 8, 9 and 10, the Chairman of the Meeting will not cast your votes on Items 2, 6, 7, 8, 9 and 10 and your votes will not be counted in computing the required majority if a poll is called on these items. If you appoint the Chairman of the Meeting as your proxy you can direct the Chairman how to vote by either marking the boxes in Step 2 below (for example if you wish to vote against or abstain from voting) or by marking this box (in which case the Chairman of the Meeting will vote in favour of Items 2, 6, 7, 8, 9 and 10).

The Chairman of the Meeting intends to vote all available proxies in favour of Items 2, 6, 7, 8, 9 and 10 of business.

I/We direct the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on Items 2, 6, 7, 8, 9 and 10 (except where I/we have indicated a different voting intention below) and acknowledge that the Chairman of the Meeting may exercise my proxy even though Items 2, 6, 7, 8, 9 and 10 are connected directly or indirectly with the remuneration of a member of key management personnel and/or even if the Chairman of the Meeting has an interest in the outcome of these items and that votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS	For	Against	Abstain	SPECIAL BUSINESS	For	Against	Abstain
2 To adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7 Approval of grant of options to Director under the Long Term Incentive Plan 2011 - Mr Bradley Lingo (Managing Director)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Re-elect Dato' Choo Beng Kai as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8 Approval of grant of options to Director under the Long Term Incentive Plan 2011 - Dato' Choo Beng Kai (Non Executive Director)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Re-elect Ms Fiona Robertson as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9 Approval of grant of options to Director under the Long Term Incentive Plan 2011- Ms Fiona Robertson (Non Executive Director)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL BUSINESS				10 Approval of grant of options to Director under the Long Term Incentive Plan 2011 - Mr Ross Wecker (Non Executive Director)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Approval to refresh the Company's 15% placement capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
6 Approval of grant of options to Director under the Long Term Incentive Plan 2011 - Mr Jim McKerlie (Chairman)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date / /