Drillsearch Energy Limited

ASX/media announcement
4 September 2008

Drillsearch Energy Limited, (ASX:DLS) which listed on the ASX on 2 July 1987, explores and develops conventional oil and gas projects. Drillsearch Energy has recently merged with Great Artesian Oil and Gas (ASX:GOG), by way of Scheme of Arrangement which was implemented on 12 August 2008. The merger between the companies has resulted in a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper and Eromanga Basins in Queensland and South Australia as well as offshore exploration in the Bonaparte, Carnarvon, Otway, and Gippsland Basins. Additionally Drillsearch Energy has interesting PNG and Canada. The company focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, which ensures that any discoveries can be brought into production rapidly.

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Financial Commentary on 30 June 2008 Results

In order to release its results within the required ASX timetable DLS omitted to provide a commentary to those results.

A number of shareholders and interested parties have raised questions of the Company such that in order to provide full disclosure DLS now makes this additional release.

Operating Performance:

	Six Months Dec-06	Six Months Jun-07	Fiscal 2007	Six Months Dec-07	Six Months Jun-08	Fiscal 2008	% Change June 1/2 Yrs	% Change Annual
Profit & Loss AUD 000's								
Production Sales Revenue	7,196	8,381	**15,577**	8,248	14,658	**22,906**	**75%**	**47%**
Other Revenue	75	(115)	**(40)**	744	453	**1,197**		
Cost Of Sales	(2,656)	(2,897)	**(5,553)**	(3,223)	(4,297)	**(7,520)**	**48%**	**35%**
Gross Profit	**4,540**	**5,484**	**10,024**	**5,025**	**10,361**	**15,386**	**89%**	**53%**
Gross Margin %	**63%**	**65%**	**64%**	**61%**	**71%**	**67%**		
Profit (Loss) Before Tax	1,275	1,952	**3,227**	(4,785)	(4,336)	**(9,121)**		
Volumes BOE Sold								
- Australia	49,918	56,170	106,088	47,492	**88,050**	135,542	**57%**	**28%**
- Canada	41,881	40,185	82,066	45,830	**41,177**	87,007	**2%**	**6%**
Total	91,799	96,355	**188,154**	93,322	**129,227**	**222,549**	**34%**	**18%**
Average USD Oil Price Received			**68.99**			**101.44**		

Commentary:

Oil production from the Company's Australian oil fields increased by 28% in the fiscal year to 30 June 2008 and 57% for the six months to 30 June 2008. The increased production was pleasing particularly as the Moonie to Brisbane Pipeline in Queensland was damaged and remains inoperable. During July, August and to early September 2007 there was no transportation of oil until alternative road transport became available.

Through a combination of volume and oil price increases revenue for the six month to June 2008 was a very pleasing 75% increase over the corresponding period in 2007.

Subsequent to 30 June 2008 the Company has negotiated the purchase of a 10% increase in its Tintaburra production capacity through the purchase of the 1% field interest held by CPC Energy.

As a result of DLS's purchase of additional capacity at Tintaburra coupled with the post 30 June 2008 increase to 79% in its shareholding in Circumpacific (Canada) the Group expects 2009 production levels to improve over the 2008 results.

DLS averaged US$101.44 per barrel for the sale of its product in the 12 months to June 2008. At the current oil price of USD110/bbl DLS expects to improved gross margins from operations in fiscal 2009.

Expenditure Comparables:	**30 June 2008**	**30 June 2007**	**% Change**
Exploration & Development write offs:	$9,799,036	$1,871,148	+ 423%

All Exploration & Development write-off costs relate to the Australian asset. The Company made a decision to write-off the WA318-P Bonaparte exploration expenditure ($7,954,985) as the Marina-1 well which had previously been classified as a gas discovery was proven to be uneconomic and as such all associated costs were written off in the period. An additional $1,844,051 relates to impairment costs of Naccowlah and Tintaburra assets.

It is the Company's strategy to utilise its strong and growing cash flow from existing producing operations to fund future exploration. Marina 2 is planned to be drilled during fiscal 2009 and the Company's 25% share will cost approximately $6M.

Amortisation	$3,462,026	$872,643	+ 296%

The rise in the amortisation expense on Canadian assets was the result of an additional $1,456,397 of expenditure being included in the underlying assets.

Direct Operating Costs

	2008			*2007*		
	Direct Operating Costs	BOE Sold	Direct Operating Costs per BOE sold	Direct Operating Costs	BOE Sold	Direct Operating Costs per BOE sold
Australia	$5,292,355	135,542	$39.05	$4,101,372	106,088	$38.66
Canada	$2,608,438	87,007	$29.98	$2,100,258	82,066	$25.59
Total	$7,900,793	222,549	$35.50	$6,201,630	188,154	$32.96

Direct operating costs have increased on a BOE sold basis by $2.54 (7.7%).

Corporate Expenses

On 12 August 2008 DLS acquired all the shares in Great Artesian Oil and Gas Limited ("GOG"). Management estimate combined corporate overhead savings in excess of $1,500,000pa.

Finance Costs	$7,483,898	$94,339	+ 7,861%

The $7,483,898 charge in 2008 relates exclusively to fees, interest and early retirement imposts incurred in relation to the former Meridian debt facility (facility). The Meridian facility was drawn down in early 2007 to enable the Company to participate in a substantial exploration/development/optimisation program in the Cooper Basin and the first Marina 1 well alongside ExxonMobil located offshore Western Australia.

This Meridian facility has been fully extinguished and the Company's current cash reserve position is $12M. The Board has no current plans to raise any debt funds for its present operations.

General Comments

Since 1 July 2007 DLS has strengthened its balance sheet by:

1. Raising $22.5 million equity and retiring **all** debt facilities;
2. Purchasing an additional 1% interest in the oil producing Tintaburra field; and
3. Merging with Great Artesian to acquire additional Australian exploration acreage in strategic areas.

The Company is now well positioned with $12M of cash reserves and it is generating positive monthly cash-flow from its Australian operations. These cash-flows will fund the foreseeable development of its onshore/offshore oil and gas asset portfolio to create value for its shareholders.

Peter Simpson
Chairman