



Drillsearch Energy Limited

**(ACN: 006 474 844)
(ABN: 73 006 474 844)**

APPENDIX 4E PRELIMINARY FINAL REPORT

30th June, 2008

**INCLUDING:
APPENDIX 4E DISCLOSURES
FINANCIAL STATEMENTS**

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APPENDIX 4E

For the Year Ended 30th June, 2008

Previous corresponding period: Full Year ended 30 June, 2007

RESULTS FOR ANNOUNCEMENT TO THE MARKET

| Key Information | | | | \$A'000 |
|---|-----------|--------|----|----------|
| Revenues from ordinary activities | Increased | 47.05% | to | 22,906 |
| Profit from ordinary activities after tax attributable to members | Decreased | 372% | to | (11,292) |
| Net profit for the period attributable to members | Decreased | 372% | to | (11,292) |

Dividends

It is not proposed to pay a dividend

| Net tangible Assets | Current period | Previous Corresponding period |
|--|----------------|-------------------------------|
| Net tangible asset backing per ordinary security (cents) | 5.05 | 7.90 |
| Basic earnings/ (loss) per share (cents) | (0.0170) | 0.0074 |

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 dividends 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

Statement about the audit status

This Preliminary final report is based on the Drillsearch Energy Limited and controlled entities financial report as at 30th June 2008, which are in the process of an audit by DFK - Richard Hill Pty Ltd.

This information should be read in conjunction with the Directors' Report and the Full Year Financial Statements for the period

MANAGEMENT DISCUSSION

For the Year Ended 30th June, 2008

The Directors of Drillsearch Energy Limited (“Drillsearch”) present their preliminary report together with the full year financial report for Drillsearch and its controlled entities for the period ended 30th June, 2008.

1. Operating Results

Set out below is a summary of the year’s results prepared in accordance with the requirements of the Australian Equivalents to International Financial Reporting Standards.

| | <i>Year Ended</i> <i>30th June, 2008</i> | <i>Year Ended</i> <i>30th June, 2007</i> |
|--|---|---|
| Profit and Loss | | |
| Production Sales Revenue | 22,906,278 | 15,577,242 |
| Other Revenue | 1,197,820 | (40,489) |
| Cost of Sales | (7,519,767) | (5,552,881) |
| Profit Before Tax | (10,816,684) | 3,227,616 |
| NPAT and OEI | (11,291,886) | 3,032,602 |
| Earnings per Share – Cents | (0.0170) | 0.0074 |
| Volumes | | |
| - Australia – Naccowlah & Tintaburra BOE’s Sold | 135,542 | 106,088 |
| - Canada – BOE’s Sold | 87,007 | 82,066 |
| Total Volumes | 222,549 | 188,154 |
| Average Oil Price Received | | |
| - Australia Sales Only | US\$101.44 AU\$109.97 | US\$68.69 AU\$86.68 |
| Balance Sheet | | |
| Total Assets | 67,407,232 | 62,246,457 |
| Interest Bearing Liabilities | - | 20,279,734 |
| Parent Equity Interest | 54,172,864 | 29,650,303 |
| Cash Flow | | |
| Operating | 5,517,790 | 8,268,603 |
| Investing | (12,883,928) | (25,905,623) |
| Financing | 17,185,923 | 17,222,599 |

2. Results - Commentary

2.1 Petroleum Production and sales (See Section 1 above)

Drillsearch's group petroleum production is comprised of oil, gas and NGL's derived mainly from production leases within the Tintaburra (10%) and Naccowlah (2%) Blocks in the Cooper and Eromanga Basins of south/western Queensland and from its 62.7% (2007: 62.7%) owned Canadian controlled subsidiary, Circumpacific Energy Corporation ("Circumpacific" or "CER").

Circumpacific's production is from petroleum leases and royalty interests within the Western Canada Basin in the Provinces of Alberta and Saskatchewan, Canada.

In the 12 month period, Drillsearch sold 222,549 BOE's (2007: 188,154) to generate group income of \$22,906,278 (2007: \$15,577,242). Total revenue from ordinary activities was \$24,104,098 (2007: \$15,536,753).

Profit

In the 12 month period to 30th June, 2008, the net loss before tax was \$9,121,069 (2007: profit \$3,227,616). The loss after tax attributable to members of the chief entity after deduction of minority interests was (\$11,291,886) (2007: profit \$3,032,602).

Briefly – Balance Sheet

Net tangible assets per ordinary share at 30th June, 2008, are 5.05 cents (2007: 7.90 cents).

2.2 Exploration and Development Expenditure (\$10.56 million down by \$13.64 million - 56%)

During the financial year Drillsearch expenditure on exploration, delineation drilling and development was \$9.93 million. Approximately \$0.59 million was expended by a controlled subsidiary in Canada principally on delineation and development drilling and tie in operations.

2.3 Reserves

The revised reserves were announced to the ASX on 8 April, 2008.

| Drillsearch Group | 2008 mmboe | 2007 mmboe |
|--------------------------|-----------------------|-----------------------|
| Total 2P Reserves | 1.92 | 2.31 |
| Total 3P Reserves | 5.42 | 8.61 |

2.4 Dividends

No dividends were paid or declared during the year ended 30th June, 2008.

2.5 Delineation and Appraisal

Australia

Cooper Oil Project – Tintaburra Block Drillsearch - 10% Working Interest

Oil delineation and development drilling continued at Tintaburra during the first quarter of the year. These wells were drilled at Mulberry, Talgeberry and Takyah fields.

This drilling and development program included the successful drilling of four directional wells at the Mulberry field. All four wells were drilled from a single pad location and all encountered the primary target, mid-Birkhead reservoir interval with reservoir thickness ranging from 5-15 metres. These wells are being used to accelerate production and improve sweep efficiency in the mid-Birkhead reservoir.

Drilling of the 4 directional wells completed the 2007 drilling program at the Tintaburra Block and drilling, as per our planned work program, is expected to recommence in late 2008.

All wells drilled in the Tintaburra Block by the Cooper Oil Project had been tied-in by end November 2007. The water injection program continued and is expected to provide pressure support and prevent production decline. Production optimisation and field management continues at Tintaburra.

Cooper Oil Project – Naccowlah Block Drillsearch - 2% Working Interest

Nineteen delineation and development wells were drilled at the Naccowlah Block, of these 17 were cased and suspended as future oil production wells. The development drilling program was focused on the Jackson Field with all 10 of the development wells drilled there cased and suspended.

The success of the development and delineation program will result in new oil production from the Westbourne, Murta, basal Birkhead and Hutton reservoir formations.

Wells drilled during the year continued to be tied-in with twelve, of the 17 wells completed as production wells during the year and brought online. The calendar year 2007 Naccowlah drilling program was completed with the casing of Jackson 55 in late December 2007, the calendar year 2008 drilling program resumed in late July.

Canada

Operations are conducted by Circumpacific Energy Corporation (“Circumpacific” or “CER”), a 62.63% owned Canadian subsidiary of Drillsearch Energy Limited.

The first quarter saw Circumpacific reassess its future opportunities and existing properties; based on this review it was decided not to undertake any additional drilling or seismic surveys during the period.

During the period the Willesden Green Joint Venture (CER 24.5%) was granted permission by the Alberta Energy and Utilities Board to increase their holding from one well per half section to two wells. This is good news as it has opened up new drilling opportunities within Willesden Green Joint Venture; there are as many as 12 infill drilling opportunities within the lands. The first well will be spudded in the first quarter of 2008. Two vertical Midale Vuggy wells are planned in the Colgate operations (CER 12.38%) to also commence in the first quarter 2008.

Finalisation of the agreement with Talisman Energy concerning the Mica 9-7 well is imminent. As soon as this is effective, Talisman propose to complete a gas zone in the Kiskatinaw in which CER has 29% interest, and test the basal Kiskatinaw which, subject to the reservoir being at or above an agreed pressure, CER will earn 29% interest. The board of Circumpacific is hopeful that the agreed pressure will be realised given that the offset wells producing from the Kiskatinaw have had initial flows of between 1 and 4 million cubic feet of gas per day.

During December, 2007 as part of the company's strategic review the Drillsearch board agreed to convert the majority of the existing loans owed by Circumpacific to Drillsearch Energy Ltd and Drillsearch Energy Canada (a wholly owned subsidiary) to equity in Circumpacific. The loan as at 31st December, 2007 was \$3.34 million and subject to Circumpacific shareholder approval has been agreed to be converted at CDN \$0.125 cents per share. This will bring Drillsearch's direct and indirect controlling interest through Drillsearch Energy Canada in Circumpacific just below 80%.

3. Petroleum Land Interests

Drillsearch's petroleum land interests are detailed in the Financial Statements – Note 10 – Schedule of Tenements.

4 Well Summary – 1st July, 2007 to 30th June, 2008
Australia

| WELL | TYPE | STATUS AS AT 30th June, 2008 | WORKING INTEREST |
|-------------------|-------------|---------------------------------|---------------------|
| ATP-299P | | | |
| Talgeberry 22 | Delineation | on production | 10% |
| Talgeberry 18 | Delineation | on production | 10% |
| Talgeberry 20 | Delineation | on production | 10% |
| Mulberry 32 | Development | on production | 10% |
| Mulberry 31 | Development | on production | 10% |
| Mulberry 33 | Development | on production | 10% |
| Mulberry 34 | Development | on production | 10% |
| Takyah 5 | Delineation | on production | 10% |
| ATP-259P | | | |
| Carney South 1 | NFE | P&A | 2% |
| Chila 2 | Delineation | on production | 2% |
| Jackson 46 | Delineation | on production | 2% |
| Jackson 47 | Development | C&S | 2% |
| Jackson 48 | Development | on production | 2% |
| Jackson 49 | Development | on production | 2% |
| Jackson 50 | Development | on production | 2% |
| Jackson 51 | Development | C&S | 2% |
| Jackson 52 | Development | on production | 2% |
| Jackson 53 | Development | on production | 2% |
| Jackson 54 | Development | on production | 2% |
| Jackson 55 | Development | C&S | 2% |
| Jackson 56 | Development | on production | 2% |
| Jackson South 12a | Delineation | P&A | 2% |
| Jackson South 13 | Delineation | C&S | 2% |
| Muchacho 1 | NFE | P&A | 2% |
| Naccowlah 3 | Delineation | P&A | 2% |
| Naccowlah West 20 | Delineation | on production | 2% |
| Naccowlah West 21 | Delineation | on production | 2% |
| Piniata 1 | NFE | P&A | 2% |
| Pitchery 3 | Delineation | on production | 2% |
| Tostada 2 | Delineation | C&S | 2% |

NOTE: C & S means cased and suspended, P & A means plugged and abandoned

Canada

There was no drilling in Canada during the financial year.

5 Exploration Operations

5.1 Onshore Exploration – Queensland

Chandos- ATP-783-P – Cooper Basin – SW Queensland Drillsearch – 100% Working Interest

The Chandos Block is located in the Cooper Basin and compliments the 8 new SW Queensland exploration blocks awarded to the Drillsearch group in October 2007.

During the year Santos moved ahead with the planning of a 3D seismic survey which will cover approximately 200 square kilometres. Acquisition of the Chandos survey will allow Santos to earn a 30% participating interest and Operatorship in that permit. The survey will focus on locating future exploration wells in the Cooper Basin and is scheduled for mid-2008. Santos has also continued the native title negotiations associated with this block.

Cooper Oil Project (“COP”) – Naccowlah Block Drillsearch - 2% Working Interest

Whilst the Naccowlah Delineation and Development wells were arguably Drillsearch’s most successful in 2007, Drillsearch participated in 3 near field exploration (NFE) wells that were looking to intersect known reservoir intervals in the under explored portions of the block. These wells were targeting the Murta reservoir interval, and unfortunately all 3 wells were failed to encounter economic hydrocarbons.

South West Queensland Cooper Eromanga Land Acquisition Drillsearch Group– 100% Working Interest

During the half year the Drillsearch Group, which includes Drillsearch Energy Ltd and its Canadian subsidiary Circumpacific Energy Corporation (TSX.V: CER), applied for and was awarded preferred tenderer status to eight new exploration blocks in the Cooper and Eromanga Basins. Prior to this award Drillsearch held or was a participant in a total of 7,095 sq km of exploration and production permits in the Cooper and Eromanga Basins. The new acreage will expand Drillsearch Group’s holding to over 22,000 sq km.

This award provides the group with a massive land position in the most prolific onshore Australian oil and gas prone basins. In the coming year, the group will compile all publically available geologic and geophysical data, and undertake a regional geologic study to evaluate the potential of these new areas.

5.2 Offshore Exploration/Appraisal – Western Australia/Northern Territory and Papua New Guinea

Turtle-Barnett Project – WA-13-R & NT/RL3 Drillsearch –100% Working Interest

Drillsearch contracted CGG Veritas to reprocess the relevant vintage seismic data in the Turtle-Barnett Project area. This reprocessing effort was focused on reducing geologic risk, prior to planning any future drilling or development. Reprocessing of the vintage 3D seismic data set was completed and interpretation is underway. Additionally, Drillsearch contracted ICON Engineering to conduct an engineering and economic evaluation scoping study. This study evaluated several development options including the re-entry of Barnett 2 as an oil production well. This study was carried out with a view toward establishing the most economical development plan for the project.

Drillsearch also continued farm out negotiations with several parties and on the 5th August, 2008, it was announced that Drillsearch had entered into a sales agreement with DVM International.

Marina-1 Wildcat Exploration Well – WA-318-P
Drillsearch – 25% Working Interest

Drillsearch, in Joint Venture with ExxonMobil, drilled the Marina-1 wildcat exploration well, which spudded in late September, 2007. The well was a gas condensate discovery, with hydrocarbon shows (principally gas) encountered over five separate zones. Although Marina-1 proved to be uneconomic it has proven an active hydrocarbon system in the permit, and the geologic data obtained from Marina-1 will be integrated into the forward exploration program, with our Joint Venture partner ExxonMobil, who has taken over the Operatorship of the permit.

Following drilling of Marina-1, ExxonMobil exercised its option to earn an additional 10% in the permit by funding US \$1.35 million towards the costs associated with the 2D seismic acquisition program within the permit. This seismic acquisition commenced on 19th May, 2008 and was completed 'under-budget' in 26 days. The Joint Venture acquired over 1000km of 2D seismic data within the permit.

This new data, in addition to satisfying regulatory work commitments, provides infill to the existing seismic grid, covers previously identified leads and provides additional data which will increase the geologic understanding of this part of the Bonaparte Basin.

Upon completion of this survey the JV interests within the permit are:
ExxonMobil – 75%
Drillsearch Energy – 25%

Flinders Prospect- PPL-244 – Gulf of Papua, Papua New Guinea
Drillsearch – 5% Working Interest

The operator obtained an extension of the time within which a decision could be made to drill a test of the 1.4 Tcf Flinders Prospect. The joint venture operated by Talisman Energy has continued geological and seismic analysis to reduce risk and identify a drilling location. The Joint Operating Agreement was finalised during the year, and provides a governing document for all joint venture related activities in the area.

6 Reserves

Successful drilling at the Naccowlah Block has resulted in the addition of approximately 124 thousand barrels of oil to Drillsearch's 2P reserves. 2007 drilling at Tintaburra also added to reserves, however, a re-evaluation of the reservoir characteristics, principally at Endeavour, resulted in a reduction in the estimated original oil in place with a consequent fall in estimated reserves. Drillsearch's end 2007 reserves are compared with end 2006 below

| Proved (1P) + Probable (2P) | Gross 31st December, 2007 | Gross 31st December, 2006 |
|---|---|---|
| 1P + 2P (developed + undeveloped) | Oil mmboe | Oil mmboe |
| Total 2P Australia | 1.50 | 2.02 |
| Total 2P Canada | 0.42 | 0.29 |
| 2P Group Total | 1.92 | 2.31 |
| 3P (developed + undeveloped) | Oil mmboe | Oil mmboe |
| Total 3P Australia | 3.50 | 6.30 |
| 3P Group Total | 3.50 | 6.30 |
| Total Drillsearch Consolidated 3P Reserves | 5.42 | 8.61 |

7 Forward Drilling Programme – 1st July, 2007 to 30th June, 2008

The group will participate in major new drilling in Australia and Canada.

The programme is summarised in Table 1:

Table 1

| FORWARD DRILLING PROGRAM (1) June 2008 – December, 2008 | | | | |
|--|----------------------------|-------------------------------|-----------------|--------------------------------|
| AUSTRALIA | | | | |
| AREA | PERMIT | WELL TYPE | NO. OF WELLS | DLS EQUITY |
| Tintaburra | ATP299P | Development | 1 | 10% |
| | | Delineation | 8 | 10% |
| | | Near Field Exploration | 4 | 10% |
| Naccowlah | ATP259P | Development | 10 | 2% |
| | | Delineation | 7 | 2% |
| | | Near Field Exploration | 5 | 2% |
| CANADA | | | | |
| AREA | STATUS | WELL TYPE | NO. OF WELLS | CER EQUITY |
| Colgate | Confirmed | Vertical Development | 1 | 12.38% |
| | Confirmed | Appraisal | 1 | Pooling yet to be finalised |
| | Possible | Horizontal Development | 1 | Pooling yet to be finalised |
| Willesden Green | Confirmed | Development | 1 | 24.5% |
| Mica | Subject to final agreement | Complete and tie in two zones | 1 | 29% |

(1) Subject to change

8 Capital Raising - Corporate

During the year the chief entity completed four (4) capital raisings:

- a) On the 4th of September 2007, a shareholder share purchase plan (SSPP) resulted in 63,089,279 shares allotted to eligible shareholder applicants at 11.295 cents to raise \$6.6 million before issue expenses.
- b) On 8th of October 2007, a rights issue resulted in 91,585,065 shares allotted at 10 cents each to raise \$9.1 million before issue expenses.
- c) On 22nd of February 2008, a rights issue resulted in 211,149,720 shares allotted at 4 cents to raise \$8.4 million before issue expenses
- d) Between 20th March 2008 and 24th April 2008, the shortfall on the February rights issue was placed with sophisticated investors. 346,918,328 remaining shares were allotted at 4 cents to raise \$13.9 million before issue expenses.

9 Audit

This report is based on accounts which are in the process of being audited.

10 Competent Person

The information in this Management Discussion report that relates to or refers to hydrocarbon reserves, is based on information and reports prepared by independent petroleum engineering consultants and/or compiled by the Managing Director of Drillsearch Energy Limited,

Dated at Sydney this 29th day of August, 2008



**DAVID WILLIAMS
MANAGING DIRECTOR**



Drillsearch Energy Limited

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

(ACN: 006 474 844)
(ABN: 73 006 474 844)

FINANCIAL STATEMENTS

30th June, 2008

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET AS AT 30th June, 2008

| | <i>Consolidated</i> | |
|--------------------------------------|------------------------|------------------------|
| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
| | \$ | \$ |
| Current Assets | | |
| Cash | 11,914,441 | 2,706,148 |
| Receivables | 5,337,290 | 2,578,900 |
| Other financial assets | 7,001 | 123,493 |
| Inventories | 2,171,893 | 1,718,258 |
| Total Current Assets | 19,430,625 | 7,126,799 |
| Non-Current Assets | | |
| Receivables | 168,579 | 167,351 |
| Other financial assets | 40,000 | 1,414,776 |
| Property, plant & equipment | 10,402,403 | 10,579,250 |
| Petroleum properties | 37,365,625 | 42,958,281 |
| Total Non-Current Assets | 47,976,607 | 55,119,658 |
| Total Assets | 67,407,232 | 62,246,457 |
| Current Liabilities | | |
| Payables | 3,398,080 | 7,729,378 |
| Financial Liabilities | - | 5,344,859 |
| Current tax liabilities | 3,940,263 | - |
| Provisions | 11,584 | 12,245 |
| Total Current Liabilities | 7,349,927 | 13,086,856 |
| Non-Current Liabilities | | |
| Financial Liabilities | - | 14,934,875 |
| Provisions | 2,256,278 | 2,157,300 |
| Deferred tax liabilities | 1,415,319 | 301,950 |
| Total Non-Current Liabilities | 3,671,597 | 17,394,125 |
| Total Liabilities | 11,021,524 | 30,480,607 |
| Net Assets | 56,385,708 | 31,765,850 |
| Equity | | |
| Contributed equity | 67,802,582 | 30,339,117 |
| Reserves | (343,255) | 1,305,763 |
| Accumulated losses | (13,286,463) | (1,994,577) |
| Parent Equity Interest | 54,172,864 | 29,650,303 |
| Outside Equity Interest | 2,212,844 | 2,115,547 |
| Total Equity | 56,385,708 | 31,765,850 |

Consolidated balance sheet is to be read in conjunction with the accompanying notes.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT For the Year Ended 30th June, 2008

| | <i>Consolidated</i> | |
|---|------------------------|------------------------|
| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
| | \$ | \$ |
| Revenue from ordinary activities | 24,104,098 | 15,536,753 |
| Movement in inventories – increase/(decrease) | 381,026 | 648,749 |
| Direct operating expense | (7,900,793) | (6,201,630) |
| Employee benefits expense | (852,867) | (1,499,830) |
| Depreciation | (287,297) | (461,352) |
| Amortisation | (3,462,026) | (872,643) |
| Exploration and development expenses written off | (9,799,036) | (1,871,148) |
| Finance costs | (7,483,898) | (94,339) |
| Other expenses from ordinary activities | (3,820,276) | (1,956,944) |
| | | |
| Profit/(loss) from ordinary activities before income tax expense | (9,121,069) | 3,227,616 |
| Income tax (expense)/recovery | (1,695,614) | 10,776 |
| | | |
| Net profit/(loss) | (10,816,684) | 3,238,392 |
| Net profit/(loss) attributable to outside equity interests | 475,202 | 205,790 |
| | | |
| Net profit/(loss) attributable to members of the parent entity | (11,291,886) | 3,032,602 |
| | | |
| Basic earnings/(loss) per share (cents per share) | (0.0170) | 0.0074 |
| Diluted earnings/(loss) per share (cents per share) | (0.0170) | 0.0074 |

Consolidated Income statement is to be read in conjunction with the accompanying notes.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED CASH FLOW STATEMENT For the Year Ended 30th June, 2008

| | <i>Consolidated</i> | |
|--|----------------------------|----------------------------|
| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
| | \$ | \$ |
| Cash Flows from Operating Activities | | |
| Receipts from petroleum operations | 22,948,199 | 15,325,268 |
| Cash payments in the course of operations | (16,272,737) | (7,093,969) |
| Dividend received | 1,000 | - |
| Interest received | 306,169 | 131,643 |
| Interest and costs of finance paid | (1,464,841) | (94,339) |
| Income Tax Paid | - | - |
| Net cash provided by (used in) operating activities | 5,517,790 | 8,268,603 |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of property, plant & equipment | 517,108 | - |
| Payment for plant and equipment | (142,811) | (7,899,391) |
| Purchase of non-current investments | (40,000) | (605,179) |
| Proceeds from sale of non-current investments | 1,514,504 | 1,386 |
| Purchase of Shares in Related Party | - | (143,675) |
| Repayment of loans | - | 236,785 |
| Advance of loans | - | (47,379) |
| Repayment of related party loans | - | 17,608 |
| Payment relating to petroleum properties | (14,732,729) | (17,465,778) |
| Net cash provided by (used in) investing activities | (12,883,928) | (25,905,623) |
| Cash Flows from Financing Activities | | |
| Proceeds from the issue of shares | 38,607,228 | - |
| Payment of share issue costs | (1,143,763) | - |
| Proceeds from borrowings | - | 17,229,020 |
| Repayments of borrowings | (20,277,542) | (6,421) |
| Net cash provided by (used in) financing activities | 17,185,923 | 17,222,599 |
| Net increase/(decrease) in cash held | 9,819,785 | (414,420) |
| Cash at the beginning of the year | 2,706,148 | 3,254,086 |
| Adjustment for variation in foreign currency | (611,492) | (133,518) |
| Cash at the End of the Year | 11,914,441 | 2,706,148 |

Cash flow statement is to be read in conjunction with the accompanying notes.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

Notes to and Forming Part of the Financial Statements For the Year Ended 30th June, 2008

NOTE 1 - Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of these financial statements are:

a) Statement of Compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act, 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards ("AASBs") adopted by the AASB and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish from previous Australian GAAP. The financial reports of Drillsearch Energy Limited ("Drillsearch") and the company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

b) Basis Preparation

The financial report has been prepared in accordance with historical cost convention. The functional currency and presentation currency of Drillsearch is Australian dollars.

The preparation of a financial report of conformity with Australian Accounting Standards required management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in Drillsearch.

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.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1st July, 2004, for the purposes of the transition to Australian Accounting Standards – AIFRS. The accounting policies have been applied consistently by all entities in Drillsearch.

c) Basis of Consolidation

i) *Subsidiaries*

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of any entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

ii) *Joint Ventures*

Joint ventures are those entities over whose activities Drillsearch has joint control, established by contractual agreement.

iii) *Jointly Controlled Operations and Assets*

The interest of the company and of Drillsearch in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets in controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

iv) *Transactions Eliminated on Consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

d) Operating Revenue – Note 3

Sales revenue mainly represents revenue earned from the sale of oil and gas.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

Notes to and Forming Part of the Financial Statements For the Year Ended 30th June, 2008

e) Revenue Recognition

Sales Revenue

Sales revenue comprises revenue earned (net of returns and allowances) from the provision of oil and gas to entities outside the consolidated entity. Sales revenue is recognised when the goods are provided.

Interest Income

Interest income is recognised as it accrues.

Asset Sales

The gross proceeds of asset sales are included as revenue of the consolidated entity. The profit on disposal of assets is brought to account at the date an unconditional contract of sale is signed

f) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks and financial institutions, net of bank overdrafts.

g) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the profit from ordinary activities in the financial year in which the exchange rates change.

Translation of Controlled Foreign Entities

The balance sheets of the controlled entities incorporated overseas (being self-sustaining foreign operations) are translated at the rates of exchange ruling at balance date. Operating results are translated at an average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

The financial statements of controlled entities incorporated overseas (being integrated foreign operations) are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at an average rate for the year. Exchange differences arising on translation are brought to account in the profit from ordinary activities.

h) Taxation

Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit be realised.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

Notes to and Forming Part of the Financial Statements For the Year Ended 30th June, 2008

i) Investments

Controlled Entities

Investments in controlled entities are carried in the chief entity's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in profit from ordinary activities when they are proposed by the controlled entities.

Other Companies

Investments in other companies are carried at the lower of cost, and recoverable amount, being a directors' valuation based on market values at the time of the valuation. Dividends are brought to account as they are received.

Interest in Joint Ventures

The consolidated entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statements of financial performance and financial position. Details of the consolidated entity's interests are shown in Note 20.

j) Property, Plant and Equipment – Note 12

Items of plant and equipment are recorded at cost and depreciated as outlined below:

Depreciation and Amortisation

Items of plant and equipment, including buildings and leasehold property but excluding freehold land, have been depreciated/amortised over their estimated useful lives to the consolidated entity. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The reducing balance method is used.

Assets are depreciated or amortised from the date of acquisition.

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

| Class of Fixed Asset | Depreciation Rate |
|------------------------|-------------------|
| Plant and Equipment | 25-50% |
| Leased Motor Vehicles | 22.5% |
| Leasehold Improvements | 20% |

k) Exploration, Evaluation and Development Expenditure – Note 13

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. These costs are carried forward where they are expected to be recouped through sale or successful development and exploitation of the area of interest or where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

The ultimate recoupment of costs carried forward in respect of interests still in the exploration or evaluation phases is dependent on successful development and commercial exploitation, or alternatively, sale of respective areas.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the year the decision is made. Each area of interest is also reviewed annually and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

When production commences, carried forward exploration, evaluation and development costs are amortised over the life of the economically recoverable reserves.

l) Petroleum Properties – Note 13

The group follows the full cost method of accounting for oil and gas properties 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.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

Notes to and Forming Part of the Financial Statements For the Year Ended 30th June, 2008

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 the statement of financial performance.

Depletion of oil and gas properties and amortisation of production facilities and equipment for the group are calculated using the unit-of-production method based on estimated proven oil and gas reserves as determined by independent reservoir engineers. For the purposes of the depletion calculated, proven oil and gas reserves before royalties are converted to a common unit of measure.

The estimated costs for developing proved undeveloped reserves, future site restoration 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 undiscounted future net revenues, based on year end prices and costs, less the aggregate estimated future general and administrative financing and income tax costs derived from proven reserves or the capitalised cost less impairment of unproved properties.

The amounts recorded for depletion and amortisation of property, plant and equipment and for future site restoration and abandonment are based on estimates of reserves and future costs.

m) Impairment

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

An impairment loss is recognised whenever the carrying amount of an assets or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, 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.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any exploration and development assets allocated to cash generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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 a 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 during 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 specified 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.

n) Restoration, Rehabilitation and Environmental Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure.

Restoration, rehabilitation and environmental costs necessitated by development and production activities are accrued on a gradual basis over the production life of the petroleum production activity and treated as costs of production.

Restoration, rehabilitation and environmental obligations recognised include the costs of reclamation, plant and waste site closure and subsequent monitoring of the environment.

Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

Notes to and Forming Part of the Financial Statements For the Year Ended 30th June, 2008

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining field life.

o) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the assets, but not the legal ownership, are transferred to entities in the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised on a reducing balance basis over their estimated useful lives to the consolidated entity where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

p) Going Concern

The financial statements have been prepared on a going concern basis which contemplates the continuation of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

q) Inventories

Inventories consisting of finished goods are carried at the lower of cost and net realisable value. Net realisable value is determined on the basis of normal selling patterns. Expenses of marketing, selling and distribution to customers are estimated and are deducted from expected selling price to establish net realisable value.

Inventories consisting of marketable securities are carried at the lower of cost and net realisable value. Expenses of marketing and selling the securities are estimated and deducted to establish net realisable value.

Inventories consisting of beef cattle are stated at the lower of cost and net realisable value.

r) Earnings per Share – Note 8

Basic earnings per share is determined by dividing the net profit/(loss) after outside equity interest by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the net profit/(loss) after outside equity interest adjusted by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

s) Employee Entitlements

Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at their nominal amount due to the liability calculated on that basis providing an estimate of the long service leave liability not materially different from that estimate based on the present value of the estimated future cash flows to be paid for those entitlements.

Employee Benefits – Share Based Payments

The company makes Share Based Payments by way of bonus payments in lieu of cash to selected employees from time to time. All payments are expensed at the time of issue at the prevailing market price.

t) Receivables

Trade Debtors

Trade debtors are recognised when the risks and rewards of ownership of the underlying sales transactions have passed to customers. Trade debtors are recorded at nominal amounts. Credit terms are 14 days in

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

Notes to and Forming Part of the Financial Statements For the Year Ended 30th June, 2008

Australia and 25 days in Canada. Collectability of overdue accounts is assessed on an ongoing basis. Specific provisions are made for all doubtful accounts.

u) Payables

Trade and Other Creditors

These amounts represent unpaid liabilities for goods and services provided to the chief entity and consolidated entity prior to the end of the financial year. The amounts are unsecured and are normally settled within 60 days.

v) Bank Loans

Bank loans are carried at their principal amount subject to set off arrangements. Interest is accrued over the period of the loan.

w) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30th June, 2008

NOTE 2 – Consolidated Statement of Changes in Equity

| | <i>Share Capital</i> | <i>Accumulated Losses</i> | <i>Reserves</i> | <i>Minority Interests</i> | <i>Total</i> |
|--|--------------------------|-------------------------------|------------------|-------------------------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July, 2007 | 30,339,117 | (1,994,577) | 1,305,763 | 2,115,547 | 31,765,850 |
| Shares issued during the period | 38,607,228 | - | - | - | 38,607,228 |
| Share issue expenses | (1,143,763) | - | - | - | (1,143,763) |
| Profit attributable to members of parent entity | - | (11,291,886) | - | - | (11,291,886) |
| Net exchange differences recorded in equity | - | - | (1,781,143) | - | (1,781,143) |
| Profit attributable to minority shareholders | - | - | - | 475,202 | 475,202 |
| Dividends paid | - | - | - | - | - |
| Increase in reserves | - | - | 132,125 | (377,905) | (245,780) |
| Share value decrement recorded in reserves | - | - | - | - | - |
| Balance as at 30th June, 2008 | 67,802,582 | (13,286,463) | (343,255) | 2,212,844 | 56,385,708 |
| Balance at 1 July, 2006 | 30,339,117 | (5,027,179) | 2,315,785 | 2,070,476 | 29,698,199 |
| Shares issued during the period | - | - | - | - | - |
| Share issue expenses | - | - | - | - | - |
| Profit attributable to members of parent entity | - | 3,032,602 | - | - | 3,032,602 |
| Net exchange differences recorded in equity | - | - | (1,086,246) | - | (1,086,246) |
| Profit attributable to minority shareholders | - | - | - | 205,790 | 205,790 |
| Dividends paid | - | - | - | - | - |
| Increase in reserves | - | - | - | (160,719) | (160,719) |
| Share value decrement in long term investment recorded in equity | - | - | 76,224 | - | 76,224 |
| Balance as at 30th June, 2007 | 30,339,117 | (1,994,577) | 1,305,763 | 2,115,547 | 31,765,850 |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued) For the Year Ended 30th June, 2008

NOTE 3 - REVENUES

| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
|---|------------------------|------------------------|
| | \$ | \$ |
| Operating Activities | | |
| Sales Revenue | | |
| - Australia | 15,183,984 | 10,113,556 |
| - Canada | 7,722,293 | 5,463,686 |
| Interest and dividends received | 349,820 | 131,643 |
| Gain on sale of investments | 569,145 | (44,612) |
| Other Income | - | 29,500 |
| Net Proceeds on disposal of property, plant & equipment | 261,953 | 2,545 |
| Management Fees | 10,000 | - |
| | 24,092,700 | 15,536,753 |

NOTE 4 – PROFIT/(LOSS) FROM ORDINARY ACTIVITIES

a) Net Gains and Expenses

Profit/(loss) from ordinary activities before income tax expense includes the following specific net gains and expenses

| | | |
|--|-----------|-----------|
| Net gain/(loss) on disposal of Investment | 569,145 | (44,776) |
| Net gain/(loss) on disposal of property, plant and equipment | 261,953 | 2,545 |
| Realised Foreign Exchange Gain/(Loss) | (267,002) | (124,988) |
| Expenses | | |
| Cost of Sales | 7,519,767 | 5,552,881 |
| Depreciation of Non-Current Assets | 287,297 | 300,231 |
| Amortisation of Non-Current Assets | 3,462,026 | 2,095,935 |
| Impairment Charges | 1,844,051 | - |
| Share valuation decrement | 4,492 | 159,565 |
| Bad debts written off | 303,177 | - |
| Provision for employee entitlements | 24,972 | 14,535 |

b) Significant Revenues and Expenses

The following significant revenue and expense items are relevant in explaining the financial performance:

| | | |
|---|-----------|---------|
| Exploration expenses written-off * | 7,954,985 | 839,896 |
| Interest and finance charges | 5,397,178 | 94,339 |
| Provision for Interest on tax payable by foreign subsidiary | 2,086,720 | - |

* The Marina-1 wildcat exploration well drilled in September, 2007 was a gas discovery. The Marina-1 well and the associated exploration program defining the target prior to drilling the well cost \$7,229,249 (Drillsearch share). The Marina-1 well discovery was classified as uneconomic and all costs were written off during the current period.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 5 – SHARE CAPITAL

| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
|---|------------------------|------------------------|
| | \$ | \$ |
| a) Issued Capital 1,116,136,088 Shares | | |
| (2007: 403,393,696) | | |
| Ordinary Shares Fully Paid | 821,92,820 | 43,585,592 |
| Discount on Ordinary Shares Issued | (12,819,849) | (12,819,849) |
| Share Issue Costs Recognised Directly in Equity | (1,570,389) | (426,626) |
| | 67,802,582 | 30,339,117 |

Movement in ordinary shares

| | <i>Shares</i> | <i>Shares</i> |
|---|----------------------|--------------------|
| at the beginning of the period | 403,393,696 | 403,393,696 |
| issued at 11.295 cents on the 4 th of September 2007 | 63,089,279 | - |
| issued at 10 cents on the 8 th of October 2007 | 91,585,065 | - |
| issued at 4 cents on the 22 nd of February 2008 | 211,149,720 | - |
| issued at 4 cents on the 20 th of March 2008 | 20,975,478 | - |
| issued at 4 cents on the 22 nd of April 2007 | 302,317,850 | - |
| issued at 4 cents on the 24 th of April 2007 | 23,625,000 | - |
| | 1,116,136,088 | 403,393,696 |

NOTE 6 – RETAINED EARNINGS

| Movements in Accumulated losses were as follows: | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
|---|------------------------|------------------------|
| Balance at the start of the year | (1,994,577) | (5,027,179) |
| Profit/(Loss) attributable to the members of the Parent | (11,291,886) | 3,032,602 |
| | (13,286,463) | (1,994,577) |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 7 – SEGMENT INFORMATION

Business Segments

The Consolidated Entity is organised into the following business segments:

Oil and Gas

Comprises exploration and production facilities in Australia and Canada and exploration in Papua New Guinea.

Primary Reporting - Business Segments 2008 - Current Period

| | Oil & Gas \$ | Other \$ | Consolidation \$ |
|---|-----------------|-------------|---------------------|
| Revenue | 22,906,278 | 1,197,820 | 24,104,098 |
| Segment result profit/(loss) | (10,794,091) | 1,197,820 | (9,596,271) |
| Net profit/(loss) after income tax expense | (12,489,706) | 1,197,820 | (11,291,886) |
| Segment assets | 67,233,922 | 173,310 | 67,407,232 |
| Segment liabilities | 11,021,524 | - | 11,021,524 |
| Acquisitions of property, plant and equipment and other non current segment assets | 12,034,586 | - | 12,034,586 |
| Depreciation and amortisation expenses | 3,749,323 | - | 3,749,323 |
| Exploration expenses written off | 7,954,985 | - | 7,954,985 |
| Other expense provisions | 149,311 | - | 149,311 |

Secondary Reporting - Geographical Segments 2008 – Current Period

| | Australia \$ | Canada \$ | Papua New Guinea \$ | Consolidated \$ |
|---------|-----------------|--------------|---------------------------|--------------------|
| Revenue | 15,701,797 | 8,402,301 | - | 24,104,098 |
| Assets | 38,847,675 | 27,989,176 | 397,072 | 67,233,922 |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 7 – SEGMENT INFORMATION (Continued)

Primary Reporting - Business Segments 2007 – Previous Period

| | Oil & Gas \$ | Other \$ | Consolidation \$ |
|--|-----------------|-------------|---------------------|
| Revenue | 15,577,242 | (40,489) | 15,536,753 |
| Segment result profit/(loss) | 3,141,160 | 86,456 | 3,227,616 |
| Net profit/(loss) after income tax expense | 3,151,936 | 86,456 | 3,238,392 |
| Segment assets | 62,123,348 | 123,493 | 62,246,841 |
| Segment liabilities | 30,480,981 | - | 30,480,981 |
| Acquisitions of property, plant and equipment and other non current segment assets | 23,444,128 | - | 23,444,128 |
| Depreciation and amortisation expenses | 2,396,166 | - | 2,396,166 |
| Exploration expenses written off | 839,896 | - | 839,896 |
| Other non cash expenses | (39,244) | 14,535 | (24,709) |

Secondary Reporting - Geographical Segments 2007 – Previous Period

| | Australia \$ | Canada \$ | Papua New Guinea \$ | Consolidated \$ |
|---------|-----------------|--------------|---------------------------|--------------------|
| Revenue | 10,073,067 | 5,463,686 | - | 15,536,753 |
| Assets | 49,575,338 | 12,294,485 | 377,018 | 62,246,841 |

NOTE 8 – EARNINGS PER SHARE

| | 30th June, 2008 | 30th June, 2007 |
|--|----------------------------|----------------------------|
| Basic Earnings Per Share (cents per share) | (0.0170) | 0.0074 |
| Diluted Earnings per Share (cents per share) | (0.0170) | 0.0074 |

Weighted Average Number of Ordinary Shares on Issue used as the Denominator in Calculating Basic Earnings Per Share

| | | |
|---------------|--------------------|-------------|
| - Basic EPS | 664,095,834 | 403,494,696 |
| - Diluted EPS | 664,095,834 | 403,393,696 |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 9 – COMMITMENTS

The parent entity has the following commitments for exploration and development. The final commitment may vary depending on results.

| | 1 year \$ | 2-3 years \$ |
|---------------------------------------|--------------|-----------------|
| Exploration & Development Commitments | 10,257,000 | 6,588,000 |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 10 – SCHEDULE OF PETROLEUM TENEMENTS

| <i>Exploration/Production Title</i> | <i>Approx. Area (sq. km/ha)</i> | <i>Operator</i> | <i>Current Interest</i> |
|---|-------------------------------------|----------------------------------|-----------------------------|
| AUSTRALIA | | | |
| Drillsearch Energy Limited | | | |
| Queensland | | | |
| PL.5 (Pickanjinie No. 10) | N/A | Santos Limited | 75% |
| ATP.259P & PPL's (Naccowlah) | 3,111 sq. km | Santos Limited | 2% |
| ATP.299P & PPL's (Tintaburra) | 1,743 sq. km | Santos Limited | 10% |
| ATP.832P (Surat) | 682 sq. km | Drillsearch Energy Limited | 100% |
| Western Australia | | | |
| WA.318P | 3,345 sq. km | Drillsearch Energy Limited | 100% |
| WA.13R | 134 sq. km | Drillsearch Energy Limited | 94.1% |
| WA.352P | 2,025 sq. km | Drillsearch Energy Limited | 100% |
| Northern Territory | | | |
| NT/RL.3 | 68 sq. km | Drillsearch Energy Limited | 95% |
| PAPUA NEW GUINEA | | | |
| PPL.244 (formerly PPL.200) | 2,721 sq. km | Talisman Energy | 5% |
| CANADA | | | |
| Drillsearch Energy (Canada) Inc. | | | |
| Talbot Lake | 3,072 ha | Drillsearch Energy (Canada) Inc. | 100% |
| Talbot Lake | 5,632 ha | Energy Venture Inc. | 25% |
| Circumpacific Energy Corporation (2) | | | |
| Alberta | | | |
| Spring Coulee | 256 ha | Circumpacific Energy Corp | 100% |
| Wapiti | 512 ha | Enermark Inc | 18.98% |
| Calais | 128 ha | Kereco Energy Ltd. | 8.75% |
| Ferrier | 64 ha | Peregrine Energy Ltd. | GORR/APO |
| Grand Forks | 272 ha | Circumpacific Energy Corp. | 100% |
| Kakwa | 1,856 ha | Paramount Resources | 12.5% |
| Mitsue | 448 ha | Vermillion Resources | 12.6% |
| Mica (Note 3) | 1,280 ha | Talisman Energy | 29% |
| Rainbow | 128 ha | Circumpacific Energy Corp. | 17.7% |
| Willesden Green | 2,048 ha | NAL Res. Ltd. | 22.5% |
| | 1,536 ha | Esprit Exploration Ltd. | 1.25% GORR |
| Worsley | 2,048 ha | Enterra Energy Corp. | 12.5% |
| Lambert | 256 ha | Talisman Energy Inc. | 9.8% |
| Talbot Lake | 5,632 ha | Energy Venture Inc. | 8% GORR |
| Saskatchewan | | | |
| Browning | 128 ha | T. Bird Oil Ltd. | GORR |
| Colgate | 528 ha | Enermark Inc | 11.9% |
| Eastend a) PNG | a) 96 ha | Titan Sask. Ltd. | GORR |
| b) Helium | b) 3,065 ha | Circumpacific Energy Corp | 100% |
| Hume | 160 ha | NAL Resources | 12.5% |
| Lloydminster | 64 ha | Acclaim Energy Inc. | 50% |
| Manito | 480 ha | Penn West Petroleum | GORR |

Notes:

- (1) Acquired by Drillsearch Energy (Canada) Inc. a 100% owned subsidiary of Drillsearch Energy Limited.
- (2) Circumpacific Energy Corporation was a 44% owned subsidiary of Drillsearch Energy Limited as at 30 June, 2004.
- (3) Includes leases in British Columbia.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 11 - EVENTS SUBSEQUENT TO BALANCE DATE

1. Since 30th June, 2008, the following wells have been drilled at Tintaburra Block, ATP.299P:

| WELL | DRILL DATE | STATUS |
|---------------------|---------------|---------------------|
| Naccowlah South 17 | 25-July-2008 | Plugged & Abandoned |
| Nacclowlah South 18 | 5-August-2008 | Cased & Suspended |

NOTE:

Cased & Suspended Oil Producer means cased and suspended, pending completion as a future oil production well

2. Acquisition of Great Artesian Oil & Gas Limited

(a) Summary of acquisition

On 31 July 2008, Drillsearch Energy Limited announced that the proposed merger with Great Artesian Oil and Gas Limited (Great Artesian) would proceed, after the Great Artesian shareholders approved the merger on 28 July 2008 and the Federal Court of Australia granted its approval on 31 July 2008. The court order was lodged with ASIC on 31 July 2008, the scheme was implemented on 12 August 2008 and Great Artesian shares ceased trading on 13 August 2008.

(b) Purchase consideration (estimated)

Under the terms of the merger, Great Artesian shareholders received three Drillsearch shares for each Great Artesian share held at the Record date being 7:00 pm (Sydney time) on the fifth business day after the second court date (8 August 2008).

Actual number of ordinary shares issued were: 551,695,509

| | \$000 |
|---|---------------|
| Amounts already capitalised at 30 June 2008 | |
| Costs incidental to the acquisition to 30 June 2008 | |
| Amounts to be capitalised after 30 June 2008 | 95 |
| Underlying purchase consideration: | |
| Shares consideration 551,695,509 shares @ \$0.049 | 27,033 |
| Related purchase consideration: | |
| Estimated acquisition costs to complete – advisory, legal etc | 15 |
| Total Consideration | 27,143 |

3. On 23 July 2008, the TSX Venture Exchange accepted Circumpacific Energy's application to convert the Drillsearch Energy Canada due from related party amount of \$3,000,000 to 24,000,000 Circumpacific shares (TSX-V CER) @ \$0.125/share.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 11 - EVENTS SUBSEQUENT TO BALANCE DATE (continued)

(c) Assets and liabilities acquired

The carrying amounts of the assets and liabilities of Great Artesian immediately prior to the acquisition are as follows:

| | <i>Acquiree's carrying amount</i> |
|-------------------------------------|---------------------------------------|
| | <i>\$000</i> |
| Cash | 2,403 |
| Available for sale financial assets | 2,779 |
| Receivables | 1,895 |
| Other | 214 |
| Plant and equipment | 220 |
| Other financial assets | 138 |
| Oil and gas interests | 12,497 |
| Payables | (3,525) |
| Financial liabilities | - |
| Provisions | (591) |
| Net Assets Acquired | 16,029 |

The fair value of the assets and liabilities of the acquiree are yet to be determined. Under AASB 3 Business Combinations, adjustments to the fair values assigned to the identifiable assets, liabilities or contingent liabilities must be recognised within twelve months of the acquisition date.

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
|--|------------------------|------------------------|
| | \$ | \$ |
| Production plant | 10,166,617 | 3,933,296 |
| Foreign currently transaction | (182,576) | (164,969) |
| Disposals during year | - | (34,416) |
| Additions during year | 1,380,186 | 779,205 |
| Transferred from development (Note 13) | - | 7,563,535 |
| Profit on disposal | - | - |
| Accumulated depreciation | (1,019,494) | (1,910,034) |
| | 10,307,791 | 10,166,617 |
| Other Assets | | |
| At cost | 640,028 | 1,022,341 |
| Accumulated depreciation | (545,416) | (609,708) |
| | 94,612 | 412,633 |
| Total Property, Plant & Equipment | 10,402,403 | 10,579,250 |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 13 – EXPLORATION, DEVELOPMENT AND PETROLEUM PROPERTIES

| | <i>30th June, 2008</i> | <i>30th June, 2007</i> |
|--|------------------------|------------------------|
| | \$ | \$ |
| Balance brought forward | 4,841,990 | 4,640,146 |
| Foreign currency translation | (42,626) | (155,548) |
| Expenditure incurred during year | 6,177,469 | 1,197,288 |
| Transferred to development | - | - |
| Transferred to petroleum properties | - | - |
| Expenditure written off during the year | (8,681,201) | (839,896) |
| Adoption of IFRS | - | - |
| Balance carried forward | 2,295,632 | 4,841,990 |
| Balance brought forward | 24,185,294 | 14,449,164 |
| Foreign currency translation | (183,739) | (267,847) |
| Expenditure incurred during year | 4,381,706 | 23,002,891 |
| Transferred from exploration | - | - |
| Transferred to petroleum properties | - | - |
| Borrowing costs capitalised | 1,306,406 | 2,792,925 |
| Transferred to petroleum properties | (5,774,908) | (7,197,052) |
| Transferred to property, plant & equipment | - | (7,563,535) |
| Expenditure written off during the year | (6,530,751) | (1,031,252) |
| Balance carried forward | 17,384,008 | 24,185,294 |
| Petroleum Properties | | |
| Balance brought forward | 13,930,997 | 8,171,930 |
| Foreign currency transaction | (740,517) | (847,979) |
| Expenditure incurred during year | 439,098 | 376,738 |
| Restoration | - | 40,000 |
| Transfer from development | 5,774,908 | 7,197,052 |
| Disposals during period | (10,657) | (134,101) |
| Depletion & amortisation | (1,707,844) | (872,643) |
| Balance Carried Forward | 17,685,985 | 13,930,997 |
| | 37,365,625 | 42,958,281 |

DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30th June, 2008

NOTE 14 – NET TANGIBLE ASSETS PER SHARE

| <i>30th June, 2008</i> | <i>30th June, 2007</i> |
|------------------------|------------------------|
| \$ | \$ |
| \$0.050 | \$0.079 |

NOTE 15 – LOAN FACILITY - MERIDIAN INTERNATIONAL

The loan facility with Meridian International Capital Limited was repaid and terminated on 17 April 2008. The proceeds from the 18 January 2008 Rights Issue were applied to extinguish the remaining loan balance of \$20 million.

NOTE 16 – CONTINGENCIES

A wholly owned subsidiary of Drillsearch received a re-assessment for the 2000 taxation year in an amount of CAD \$2,632,904 including penalties and interest. The subsidiary is in the process of objecting to the revised assessment.

A provision has been made in the financial statements with respect to this matter. Any taxation, penalties and interest arising as a result of settlement, will be reflected in the financial statements in the year the claim is settled.