

10 June, 2009

Chairman's Address

As many of you may be aware, Drillsearch has recently been involved in two legal actions.

On 4 June 2009, the New South Wales Supreme Court ruled on proceedings commenced by Mr James McKerlie and an associated company against Drillsearch and three of its directors, including me.

The Court made certain findings and declarations which are set out in a company release made to the ASX on 4 June 2009.

Without descending into an analysis of the Court's decision, I wish to point out that the Court declared that no basis had been established to exclude me as the chairman of Drillsearch, and that it would not be appropriate to enjoin Me from acting as chairman of this meeting today. During the course of those proceedings evidence was submitted that I was acting prudently and in the best interests of Drillsearch and its shareholders. In delivering its reasons, the Court specifically made no criticisms of my purposes or motives in taking the steps that I did.

This gives me the right as to act as Chairman today and, if appropriate, to adjourn today's meeting under clause 37 of the company's constitution for a proper purpose according to the circumstances existing at this meeting.

In the second legal action, Drillsearch commenced proceedings last week against Messrs McKerlie, Choo and Kelso in relation to alleged breaches of provisions of the Corporations Act dealing with substantial shareholders and directors duties. However, the Court yesterday permanently stayed those proceedings, without addressing those allegations.

In addition to the Court actions, there are a few further matters that require comment today.

In recent weeks many shareholders have received an undated letter from a former director of the company, Mr. Kelso. Mr Kelso's letter sets out Mr Kelso's views toward me and that it was "my turn to go" as part of today's agenda. I will be responding to the assertions made by Mr Kelso through my solicitors directly, and also and in writing to all shareholders.

I also need you to be aware that over the next few days, you will be receiving from two non-executive directors of Drillsearch - Russell Langusch and Peter Wicks - and myself a succinct letter in response to allegations contained in a letter dated 27 May 2009 from Mr McKerlie that many of you will have received.

My position is that many of the assertions made by Mr McKerlie in that letter are false and mischievous.

This is a letter from the man who claims in the Great Artesian 2007 Annual Report and on the Walton website to be a former Managing Partner of Deloitte. I am informed by

Deloitte's that this is false. Mr McKerlie has never been the Managing Partner of Deloitte.

This is the man who also claims in the Great Artesian 2007 Annual Report and on his Waltons website to be a former Managing Partner of KPMG. I am told by KPMG that this is also a falsehood. Mr McKerlie has never been the Managing Partner of KPMG.

Mr McKerlie's previous experience as a chairman of a public company board was that of "Two Way TV" in 2004. According to a report in the Sydney Morning Herald newspaper on 29 January 2005, Two Way TV had [*and I quote*] "dumped Mr McKerlie who has held the chairman's position for only two months" [*unquote*] and had [*quotes*] "cut all ties with its chairman Jim McKerlie including terminating service contracts with his private company Ran One" [*unquote*].

This is a man who sits here today in front of you, in my opinion amongst many of his associates to obtain your mandate, to remain on the board of Drillsearch and to become the next Chairman of Drillsearch. That decision will be yours later today.

The reason that Mr Wicks and Mr Langusch and I are writing to you this week is because we are, and remain, deeply concerned that Mr McKerlie's letter of 27 May to shareholders contains a number of material falsehoods and inaccuracies. The purpose of our letter in reply that you are to receive, and my statements today, is an attempt to set the record straight.

Mr. McKerlie is, and Mr Choo was – prior to his apology - critical of me as Drillsearch's Executive Chairman and also critical of the independent non-executive directors Peter Wicks and Russell Langusch in the following broad areas:

1. First of all, Strategy

Contrary to Mr. McKerlie's allegations, Mr Wicks and Mr Langusch and I have not collectively "driven" any strategy.

Each of us has participated in board discussion and voted, in favour of or against resolutions, independently and according to what each of us believes to be in the best interests of Drillsearch and its shareholders as a whole.

There has been no "unannounced change of strategic direction" despite the assertions by Mr. McKerlie to the contrary.

2. Next, the 3D Oil Bid

Since the merger with Great Artesian, it has always been part of Drillsearch's strategy to pursue appropriate growth opportunities by merger or acquisition.

Consistent with that approach, the plain and simple facts of the 3D Oil bid are:

- a majority of the board, exercising their independent will and judgment, approved the proposed bid for the reasons disclosed in Drillsearch's bidder's statement;

- the bidder's statement, containing the reasons why 3D Oil shareholders should accept the conditional offer, was unanimously approved by the Drillsearch board, including Mr. McKerlie and Mr. Choo;
- despite negative comments made by 3D Oil about the merits of Drillsearch's conditional offer, that offer was accepted by shareholders representing approximately one third of 3D Oil's total voting shares.

Mr. McKerlie's statement that the application by Veritas Securities Limited to the Takeovers Panel was not challenged is false.

The true position is that Veritas sought orders including that the closing date of the 3D Oil bid be extended until 21 days after the closing date under Beach Petroleum Limited's bid for Drillsearch.

As a result of remedial action taken by Drillsearch to address material risks under the Corporations Act, the period of extension ultimately granted was approximately two weeks from the original closing date. Veritas' then withdrew its application.

3. Next, I turn to Appointment of the new Managing Director Mr Brad Lingo

There is no basis for the unfortunate assertion by Mr. McKerlie that the appointment of Mr. Brad Lingo as Managing Director was a "desperate attempt to recover from the shareholder discontent".

The fact is, from March 2009 Drillsearch was without a Managing Director. Mr. Lingo was assessed to be the outstanding candidate and his remuneration package is reasonable having regard to the level of his skill and experience.

Drillsearch considers that Mr. Lingo has already more than demonstrated his worth, and will continue to do so into the future for the benefit of Drillsearch and its shareholders.

4. The fourth area of criticism was Corporate Governance

There is no basis for Mr McKerlie's criticism of Drillsearch's corporate governance. His assertions in that regard are strongly disputed.

In particular, Mr McKerlie's allegations of "bullying, shortcuts and cronyism" are unjustified and regrettable.

Directors have only ever been placed on notice of possible Court action in the context of defamation proceedings for statements similar to many of those contained in Mr. McKerlie's letter to shareholders on 27 May.

I point out that Mr. Choo issued the following written apology to me after having made statements that were supported by Mr. McKerlie:

"On 22 April 2009, I [that's Mr Choo] sent letters to certain shareholders of Drillsearch Energy Limited, in which I asserted that you [Simpson] acted unprofessionally and in breach of your directors and fiduciary duties to the company, and that you were knowingly involved in a conflict of interest. I accept that these assertions are incorrect

and unreservedly apologise to you for the harm my letter has caused you and to the hurt to your feelings”.

I do not accept that the apology by Mr. Choo adequately addresses the harm caused by the making of those statements.

Unlike Mr. Choo, Mr. McKerlie has declined to proffer an apology for the offending and defamatory statements made by him.

Carling Capital Partners who until recently been the companies advisors, have strongly denied the statements made by Mr. McKerlie about them claiming they are False. By publishing his statements on Drillsearch letterhead, Mr. McKerlie has exposed Drillsearch to significant and unjustifiable risk.

5. Fifth and finally, I turn to this General Meeting

It is, and always has been, my belief that Drillsearch is best served by a board that acts with integrity and in the best interests of the shareholders. I have always done so. I have served on the board of Drillsearch for almost three years. Under the constitution of the company, my tenure was always to come to an end at the next annual general meeting. I made a recent ASX announcement that I was to retire after the ‘board renewal process’ was complete. I am disappointed, that I have not been able to see this through.

As the board and many shareholders are fully aware I decided sometime ago not to offer myself for re-election at the 2009 AGM, and to focus back on my other family and business interests.

It is also clear to me that there is a vast amount of misleading information presently circulating in the market and in the possession of shareholders which can only confuse shareholders about relevant issues that should have been properly and carefully considered before transacting the business of today’s general meeting. I do not want to be a part of a flawed process that has, in my mind, been sabotaged for personal interests at the cost of Drillsearch shareholders as a whole.

Neither I nor Mr McKerlie as directors can force directors to resign from their posts. I cannot, and will not be party to, “chucking directors off the board” of this company. In my opinion Mr. McKerlie is still making these assumptions in regard to my ability to force Drillsearch directors and independent directors of subsidiaries to resign, which clearly I am unable to do.

I totally accept, as does the majority of the board accept, that it is the right of the shareholders of Drillsearch to select the directors that they want to run this company.

As such, I am disappointed that, decisions taken in what I believe to be the best interests of Drillsearch to facilitate a feasible board renewal process, much of it upon professional advice, has not come to pass. Instead we have this unfortunate situation that now exists where the shareholders find themselves having to decide on the makeup of the board in the middle of a takeover process where corporate expertise and experience is paramount for the best interests of Drillsearch and its shareholders as a whole.

I am particularly frustrated and disappointed that the issues relating to Messrs McKerlie,



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Choo and Kelso that were the subject of the second set of proceedings will not be the subject of judicial scrutiny, due to findings unrelated to the merits of the claims.

I announce that I hereby resign my position as the Executive Chairman of Drillsearch Energy Limited and as a Director of that company.

I also hereby resign as President of the company's Canadian subsidiary Circumpacific Energy Corporation.

In closing, I would specifically like to thank our Managing Director Elect, Mr Brad Lingo for his efforts, and my fellow directors, Peter Wicks and Russell Langusch, former directors Daryl Dixon (who is with us today) and William Johnson for saving the company from the debt years that existed prior to my appointment as a director.

Finally, I wish the shareholders of Drillsearch every success in the challenges to come.