

2008 Financial Report

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 interests in 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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Attached is statutory format Financial Report for the year ended 30 June 2008 for Drillsearch Energy Limited (ASX:DLS). The Report is the final from the Company prior to the inclusion of the results of the merger with Great Artesian Oil & Gas Limited (formerly ASX:GOG). The Great Artesian merger was completed on 12 August 2008.

The Chairman of Drillsearch, Peter Simpson, said that in delivering the statutory report shareholders should be aware of a number of important developments that occurred throughout the 2008 financial year.

- The highest oil and gas production (222,000 BOE) and revenues (\$22.9 million) in the company's 20 year history. This represented a 54% increase over production revenue in 2007.
- The successful recapitalisation of the Company raising a total of \$38.6 million during a most difficult period in the capital markets.
- The Company's strong cash operating margin and the proceeds from new share issues were applied to meet the Company's exploration commitments and to retire all interest bearing debt obligations (including debt of \$20.18M). **Your Company is now debt free**, with \$12 million in cash reserves (as at 29 September 2008) and an ongoing steady stream of reliable cash flows from its producing fields in South West Queensland and Canada.
- Post 30 June 2008 the Company completed its merger with Great Artesian and as a result has a strategic spread of Australian onshore and offshore exploration and development assets targeting both oil and the strengthening Australian gas sector along with an experienced team to take the development of these forward.
- An active exploration and development programme in the 2009 financial year will see a number of wells drilled starting with the Brownlow-1 and Canunda-1 wells in PEL 106 in October. In addition, the Company is looking to make a financial decision on whether to proceed with the proposed Cool Energy designed high CO₂ gas processing facility in the Cooper Basin in South Australia.
- 2008 was a year of positioning the Company for future growth and adopting conservative balance sheet management.
- The recently strengthened Board and Management of the Company are committed to enhancing shareholder value through the timely execution of its existing asset exploration and development plans and actively pursuing further opportunities through joint venture, merger and/or acquisition.

For further information please contact the Company. The full Annual Report including a detailed operating commentary will be available to Shareholders along with the AGM Notice of Meeting before the end of October 2008.

Peter Simpson
Chairman



**Drillsearch Energy Limited
ABN: 73 006 474 844
And Controlled Entities**

**Financial Report for the year ended
30 June, 2008**

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Directors Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2008.

Directors

The names of directors in office at any time during or since the end of the year are:

- Mr. P. P. Simpson
- Mr. P. F. Kelso (retired 29 November 2007)
- Mr. D. A. Dixon
- Mr. W. M. Johnson (resigned 12 August 2008)
- Mr. G. C. Reveleigh (resigned 12 November 2007)
- Mr. M. J. Carling (appointed 17 April 2008)
- Mr. P. A. Wicks (appointed 17 April 2008)
- Mr. L. D. H. Williams (appointed 12 August 2008)
- Mr. C. J. Carty (appointed 12 August 2008)
- Mr. P. W. Hopkins (appointed 12 August 2008)
- Mr. J. M. McKerlie (appointed 12 August 2008)
- Mr. R. D. Langusch (appointed 29 August 2008) (alternate for Mr. D. A. Dixon)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Mr. W. M. Johnson — MA (Oxon), MBA. Current director of Strike Resources Limited, Scarborough Equities Limited, Safcom Limited and Orion Equities Limited. Appointed company secretary 10 December 2007, resigned 12 August 2008.

The following person was appointed company secretary subsequent to the financial year:

Mr. I. W. Bucknell — Bachelor of Business (UTS), CPA. Appointed chief financial officer and company secretary 12 August 2008.

Principal Activities

The principal activities of the consolidated group during the financial year were:

- Oil and gas exploration, development and production.

The following significant changes in the nature of the principal activities occurred during the financial year:

- No significant change in the nature of these activities occurred.

Operating Results

The consolidated loss of the consolidated group after providing for income tax and eliminating minority equity interests amounted to \$14,063,696 (2007: profit \$3,032,602).

Review of Operations

Introduction

A summary of consolidated revenues and results of significant industry segments is set out in Note 26 to the Financial Statements

Directors Report

Significant events, which occurred during the year under review included:

Corporate

- On 17 April 2008, the parent company announced that it had repaid the loan facility with Meridian International Capital Limited.
- On 18 April 2008, the parent company announced that it had signed a Merger Implementation Agreement with Great Artesian Oil and Gas Limited. The Merger was completed on 12 August 2008.

Australia

- The parent entity continued producing oil from its Naccowlah and Tintaburra joint venture interests in south/west Queensland. During the year 135,542 bbls of oil were sold by the company from these properties (2007: 106,088 bbls)
- The Marina-1 well spudded on 19 September 2007, located in the Bonaparte Basin of Western Australia. It was announced as a discovery on 8 October 2007 but later was found to be non commercial.
- During the financial year 27 wells were drilled in Tintaburra and Naccowlah as part of the continuing Cooper Oil Project. Of these 22 wells are in production or were cased and suspended as future oil producers.
- On 8 November 2007, the parent company announced the award of preferred tenderer status to it and Circumpacific Energy Corporation by the Queensland government in 8 exploration blocks within the Cooper and Eromanga basin.
- The Moonie to Brisbane pipeline suffered a rupture in late July 2007 which dropped production from an estimated 10,000 bbls per month to 5,953 bbls in August 2007 and 8,502 bbls in September 2007. The joint venture partners continue to review transportation arrangements for oil out of the Naccowlah and Tintaburra blocks in the light of that rupture.
- On 14 November 2007 the company sold its final holding in Bounty Oil Limited.

Canada

- A 62.63% (as at 30 June 2008) owned Canadian listed controlled entity of Drillsearch Energy Limited, Circumpacific Energy Corporation ("CER") continued oil and gas production in Canada and reported a loss after tax for the year of AUD\$972,266 (2007: Profit AUD\$ 548,704).

Financial Position

The net assets of the consolidated group have increased by \$22,100,063 from 30 June 2007 to \$53,865,913 in 2008. This increase has largely resulted from the following factors:

- A reduction in Financial Liabilities as a result of the repayment of the Meridian debt facility.
- An increase in cash and cash equivalent from capital raisings.

The consolidated group's strong financial position has enabled the group to reduce its borrowings by \$20,279,734 while maintaining a healthy working capital ratio. The group's working capital, being current assets less current liabilities, has improved from (\$5,960,057) in 2007 to \$11,525,312 in 2008.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- On 4 September 2007 the company issued 63,089,279 ordinary shares at \$0.11295 each to shareholders as part of a shareholder share purchase plan.

Directors Report

- ii. On 8 October 2007 the company issued 91,585,065 ordinary shares at \$0.10 each to shareholders under a rights issue.
- iii. On 22 February 2008 the company issued 211,149,720 ordinary shares at \$0.04 each to shareholders under a rights issue.
- iv. On 20 March 2008 the company issued 20,975,478 ordinary shares at \$0.04 as a shortfall placement of shares.
- v. Between 20 March and 22 April 2008 the company issued 302,317,850 ordinary shares at \$0.04 to sophisticated investors as a shortfall placement of shares.
- vi. On 24 April 2008 the company issued 23,625,000 ordinary shares at \$0.04 each to Great Artesian Oil and Gas Limited as part of the remaining shortfall placement of shares. Great Artesian Oil and Gas Limited became a wholly owned subsidiary of the parent company on 12 August 2008.

After Balance Date Events

Subsequent to balance date, the following material events have occurred:

1. *Since 30th June, 2008, the following wells have been drilled at the Naccowlah Block, ATP299P*

Well	Drill Date	Status
Naccowlah South 17	25-July-2008	Plugged & Abandoned
Naccowlah South 18	5-August-2008	Cased & Suspended
Naccowlah West 22	22-August-2008	Cased & Suspended
Jackson 57	15-September-2008	Cased & Suspended
Jackson South 15	25-September-2008	Drilling Ahead

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

2. *Merger with Great Artesian Oil and Gas Limited*

- i. Summary of merger - 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. 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. Actual numbers of ordinary shares issued were: 551,695,509. The total cost of acquisition was \$27,033,080. The Company has incurred corporate advisory and other fees in relation to the merger with Great Artesian of \$110,000.
- ii. Purchase consideration (estimate) - 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).
- iii. Issue of options to directors, and employees – Under the terms of the merger all options in Great Artesian Oil and Gas Limited were cancelled and reissued in Drillsearch on the same basis as the shares, namely three Drillsearch options for each Great Artesian option held at the Record date. The exercise price of these options was one third the original Great Artesian exercise price.

3. *Increase in interest in Tintaburra Oil field*

On 3 July 2008, the company announced that an agreement had been reached between CPC Energy Pty Limited and Drillsearch Energy Limited for the purchase of CPC Energy Pty Limited's 1% interest in the Tintaburra block (ATP299P). CPC Energy Pty Limited will receive 60 million Drillsearch Energy Limited shares as consideration at settlement.

Directors Report

4. *Increase in Circumpacific Energy Corporation*

On 23 July 2008, the Canadian TSX Venture Exchange agreed to the conversion of \$3,000,000 of debt owed to Drillsearch Energy (Canada) Incorporated, a wholly owned subsidiary of Drillsearch Energy Limited, into share capital by the issue of 24,000,000 common shares at CAD\$0.125 per share. As a result Drillsearch Energy Limited's consolidated holding in Circumpacific Energy Corporation increased from 62.7% to 79.5%.

5. *Sale of Turtle Barnett Retention Leases*

On 5 August 2008, DVM International announced that it had entered into an agreement to acquire a 100% working interest in retention leases WA 13R (Turtle Oil field) and NT/RL3 (Barnett Oil Field) for \$500,000 on completion of the 1st well, \$1,500,000 over the 1st 2 years of production and 2% ongoing royalty subject to certain conditions precedent being fulfilled.

6. *Beach Petroleum Limited agree to drill a further 2 farm in wells in PEL106*

On 10 September 2008, Beach Petroleum Limited announced their intention to drill two further exploratory wells in SA Cooper Basin permit PEL106 to earn their farm-in interest in the Beach block in that permit. The wells are anticipated to spud in October 2008.

7. *Trade receivables in Controlled entity Circumpacific Energy Corporation*

A portion of the controlled entity, Circumpacific Energy Corporation, production was being marketed with SemCanada Crude Company (SemCanada). On 22 July 2008 SemGroup (the parent entity of SemCanada) filed a voluntary petition for reorganisation under Chapter 11 of the U.S. Bankruptcy Code in the District Court of Delaware, U.S.A. SemCanada has filed for investor protection under the Companies Creditor Arrangement Act (Canada). Circumpacific has exposure of approximately CAD \$200,000 for its June 2008 oil sales, which amount was written off at that date and a further CAD \$160,000 subsequent to 30 June 2008. The controlled entity has taken action to mitigate the situation by switching its marketing agent and consulting with legal counsel to formulate a plan to maximize recovery of monies owed for oil sales of approximately CAD\$360,000.

8. *Issue of options to Alchemy Securities Pty Limited*

On 22 September 2008, the company issued 1,500,000 unlisted options with a strike price of \$0.04 per option to Alchemy Securities Pty Limited a subsidiary of RFC Corporate Finance Limited (RFC) as part consideration for services provided by RFC in connection with the scheme of arrangement between Great Artesian Oil and Gas Limited and its shareholders. The exercise period is 4 years from 12 August 2008.

Future Developments, Prospects and Business Strategies

The Company is actively seeking to increase its production of petroleum products through new discoveries and the exploitation and development of its existing probable and possible reserves. The Company will also continue to evaluate external opportunities in the form of new ventures and merger and acquisition opportunities that fit within the corporate vision and would ultimately increase the production base.

Environmental Issues

The parent entity is subject to significant environmental regulation in respect of its operated and non-operated joint venture interests in petroleum exploration, development and production. Its oil production interests in the State of Queensland are operated by Santos Limited, which complies with all relevant environmental legislation. Its other exploration operations in the southern Bonaparte Gulf, offshore Western Australia and Queensland, are operated by the parent entity and it complies with all relevant environmental legislation. Its subsidiary, Circumpacific Energy Corporation, complies with all relevant environmental regulations in the Provinces of British Columbia, Alberta and Saskatchewan, Canada.

Directors Report

Information on Directors

Mr. P. P. Simpson

	—	Chairman
Qualifications	—	Ass. Dip. Bus, FAIM and FCDI
Experience	—	Appointed Chairman 2006. Board member since 2006.
Interest in Shares and Options	—	7,475,000 Ordinary Shares in Drillsearch Energy Limited.
Special Responsibilities	—	Peter is the Executive Chairman of Circumpacific Energy Corporation, a 79.5% controlled entity of the parent company. Peter was executive Chairman of the parent company from 19 October 2007 through to 12 August 2008.
Directorships held in other listed entities	—	Current director of Bentley Equities Limited and Circumpacific Energy Corporation (TSX.V:CER)

Mr. L. D. H. Williams

	—	Managing Director
Qualifications	—	Bachelor of Laws, Bachelor of Commerce University of Melbourne
Experience	—	Appointed Director of Drillsearch Energy Limited 12 August 2008. Appointed Director of Great Artesian Oil & Gas Limited 12 September 2007.
Interest in Shares and Options	—	Nil Ordinary Shares in Drillsearch Energy Limited and options to acquire a further 2,250,000 ordinary shares
Special Responsibilities	—	Managing Director.
Directorships held in other listed entities	—	None.

Mr. M. J. Carling

	—	Non-executive Director
Qualifications	—	Bachelor of Commerce (Economics), University of New South Wales and Bachelor of Arts (Accountancy), University of Wollongong.
Experience	—	Appointed Director 17 April 2008
Interest in Shares and Options	—	Mr. Carling is a director of Cazenove Pty Ltd trustee of the Cardinal Provident Fund of which he is a beneficiary and Cazenove Pty Ltd holds 1,250,000 Ordinary Shares in Drillsearch Energy Limited.
Special Responsibilities	—	None
Directorships held in other listed entities	—	Current director of Future Corporation Australia Limited (since 2004).

Mr. C. J. Carty

	—	Technical Director
Qualifications	—	Bachelor of Science (Hons Geophysics) Macquarie University Sydney
Experience	—	Appointed Director of Drillsearch Energy Limited 12 August 2008. Appointed Director of Great Artesian Oil & Gas Limited 30 March 2007.
Interest in Shares and Options	—	Nil Ordinary Shares in Drillsearch Energy Limited and options to acquire a further 9,000,000 ordinary shares
Special Responsibilities	—	Chief Operating Officer
Directorships held in other listed entities	—	None.

Directors Report

Mr. D. A. Dixon	—	Non-executive Director
Qualifications	—	Bachelor of Arts (Hons) University of Queensland, MA Economics Cambridge University UK.
Experience	—	Appointed Director 24 October 2006.
Interest in Shares and Options	—	50,412,405 Ordinary Shares in Drillsearch Energy Limited.
Special Responsibilities	—	Mr. Dixon is a member of the audit committee.
Directorships held in other listed entities	—	Current director of Asian Masters Fund (since October 2007).
Mr. P. W. Hopkins	—	Non-executive Director
Qualifications	—	Bachelor of Economics, Bachelor of Laws (Hons) Australian National University
Experience	—	Appointed Director of Drillsearch Energy Limited 12 August 2008. Appointed Director of Great Artesian Oil & Gas Limited 29 November 2006.
Interest in Shares and Options	—	600,000 Ordinary Shares in Drillsearch Energy Limited and options to acquire a further 2,250,000 ordinary shares
Special Responsibilities	—	None.
Directorships held in other listed entities	—	None.
Mr. R. D. Langusch	—	Alternate Director (Mr. D. A. Dixon)
Qualifications	—	Bachelor of Engineering (Hons), Master of Engineering Science, University of Queensland.
Experience	—	Appointed Director 29 August 2008.
Interest in Shares and Options	—	Nil Ordinary Shares in Drillsearch Energy Limited.
Special Responsibilities	—	None.
Directorships held in other listed entities	—	Current director of Gas2Grid Limited (since 25 August 2008).
Mr. J. D. McKerlie	—	Non-executive Director
Qualifications	—	Bachelor of Economics, Diploma Financial Management, University of New England, Fellow Institute of Chartered Accountants. FAICD.
Experience	—	Appointed Director of Drillsearch Energy Limited 12 August 2008. Appointed Director of Great Artesian Oil & Gas Limited 12 September 2007.
Interest in Shares and Options	—	1,110,000 Ordinary Shares in Drillsearch Energy Limited and options to acquire a further 2,250,000 ordinary shares
Special Responsibilities	—	Mr. McKerlie is a member of the audit committee.
Directorships held in other listed entities	—	None.
Mr. P. A. Wicks	—	Non-executive Director
Qualifications	—	Fellow Institute of Chartered Accountants
Experience	—	Appointed Director 17 April 2008.
Interest in Shares and Options	—	2,000,000 Ordinary Shares in Drillsearch Energy Limited.
Special Responsibilities	—	Mr. Wicks is a member of the audit committee.

Directors Report

Directorships held in other listed entities — Current Chairman of Republic Gold Limited (since 2005), and Chairman of ETT Limited (since 2008).

REMUNERATION REPORT

This report details the nature and amount of remuneration for each key management person of Drillsearch Energy Limited, and for the executives receiving the highest remuneration.

Remuneration policy

The remuneration policy of Drillsearch Energy Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component. The board of Drillsearch Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy, setting the terms and conditions for the key management personnel, was developed by and approved by the board after seeking professional advice from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The board reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The policy is designed to attract the highest caliber of executives and reward them for performance that results in long-term growth in shareholder wealth.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Performance-based remuneration

A performance evaluation of the board and all board members was not conducted for the financial year ended 30 June 2008.

Key Management Personnel Remuneration Policy

The board's policy for determining the nature and amount of remuneration of key management for the group is as follows:

The remuneration structure for key management personnel is based on a number of factors including: length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Directors Report

The employment conditions of the managing director, Mr. L. D. H. Williams, and other key management personnel are formalised in contracts of employment. Other than the managing director, and Mr. C. J. Carty, Technical Director, all other key management personnel are permanent employees of Drillsearch Energy Limited or controlled entities. Mr. L. D. H. Williams is employed under a fixed term contract, which expires on 31 March 2011. Mr. C. J. Carty is employed under a fixed term contract, which expires on 30 March 2010.

The various employment contracts stipulate a range of resignation periods. The company may terminate the various employment contracts without cause by providing written notice or making payment in lieu of notice, based on the individual's annual salary component with a range of notice periods between 1 – 12 months. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

Management Services - Managing Director

The parent entity had a services agreement with a personally related entity of the now retired Managing Director, Mr. P. F. Kelso. The personally related entity is responsible for all statutory entitlements, if any, and the material provisions of the services agreement are set out in the Remuneration Report contained in the Directors' Report.

Management Services – Executive Chairman

The parent entity had a services agreement with a personally related entity of the Executive Chairman, Mr. P. Simpson. The personally related entity is responsible for all statutory entitlements, if any, and the material provisions of the services agreement are set out in the Remuneration Report contained in the Directors' Report.

Management Services – Non-Executive Director

The parent entity has a services agreement with a personally related entity of the non-executive director, Mr. M. Carling. The personally related entity is responsible for providing corporate advisory services and earns a monthly consultancy fee and options. The material provisions of the services agreement are set out in the Related parties transactions disclosure note.

The board of directors determines the proportion of fixed and variable compensation for each key management personnel. Refer below.

Directors Report

Key Management Personnel Remuneration

2008

Key Management Person	Short-term Benefits				Post-employment Benefits
	Cash, salary and commissions	Cash Bonus	Non-cash benefit	Other	Super-annuation
	\$000	\$000	\$000	\$000	\$000
P. P. Simpson	139,500	-	-	-	40,000
W. M. Johnson	30,000	-	-	-	-
P. F. Kelso (resigned 29 Nov 07)	120,000	-	2,653	-	-
D. A. Dixon	-	-	-	-	30,000
G. C. Reveleigh (resigned 12 Nov 07)	10,000	-	-	-	-
M. J. Carling	6,164	-	-	-	-
P. A. Wicks	6,164	-	-	-	-
M. L. Hutt (resigned 10 Dec 2007)	65,513	-	-	-	5,265
E. S. Petrie	130,032	30,000	-	-	16,710
	507,373	30,000	2,653	-	91,975

2008 (continued)

Key Management Person	Other Long-term Benefits	Share-based Payment		Total	Performance Related
	Other	Equity	Options		
	\$000	\$000	\$000	\$000	%
P. P. Simpson	-	-	-	179,500	-
W. M. Johnson	-	-	-	30,000	-
P. F. Kelso (resigned 29 th Nov 07)	169,917	-	-	292,570	-
D. A. Dixon	-	-	-	30,000	-
G. C. Reveleigh (resigned 12 th Nov 07)	-	-	-	10,000	-
M. J. Carling	-	-	-	6,164	-
P. A. Wicks	-	-	-	6,164	-
M. L. Hutt (resigned 10 Dec 2007)	-	-	-	70,778	-
E. S. Petrie	-	-	-	176,742	16.98
	169,917	-	-	801,918	

Directors Report

2007

Key Management Person	Short-term Benefits				Post-employment Benefits
	Cash, salary and commissions	Cash profit share	Non-cash benefit	Other	Super-annuation
	\$000	\$000	\$000	\$000	\$000
J. A. Armstrong	16,667	-	-	-	-
P. P. Simpson	-	-	-	-	29,104
P. F. Kelso	376,208	50,000	3,335	-	-
D. A. Dixon	-	-	-	-	21,856
W. M. Johnson	20,671	-	-	-	2,085
G. C. Reveleigh	30,000	-	-	-	-
M. L. Hutt (resigned 10 Dec 2007)	145,997	7,500	-	-	90,025
E. S. Petrie	105,000	10,000	-	-	14,900
	694,543	67,500	3,335	-	157,970

2007 (continued)

Key Management Person	Other Long-term Benefits	Share-based Payment		Total Performance Related	
	Other	Equity	Options		
	\$000	\$000	\$000	\$000	%
J. A. Armstrong	104,166	-	-	120,833	-
P. P. Simpson	-	-	-	29,104	-
P. F. Kelso	-	-	-	429,543	11.64
D. A. Dixon	-	-	-	21,856	-
W. M. Johnson	-	-	-	22,756	-
G. C. Reveleigh	-	-	-	30,000	-
M. L. Hutt (resigned 10 Dec 2007)	-	-	-	243,522	3.08
E. S. Petrie	-	-	-	129,900	7.70
	104,166	-	-	1,027,514	

Performance income as a proportion of total remuneration

Executive directors and executives have been paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals. The board of directors has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the consolidated group.

The board of directors will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Directors Report

Options issued as part of remuneration for the year ended 30 June 2008

There were no options on issue as at the year ended 30 June 2008 to directors or executives as part of their remuneration.

Meetings of Directors

During the financial year, 19 meetings of directors (including committees of directors) were held.

Attendances by each director during the year were as follows:

	Committee Meetings			
	Directors' Meetings		Audit Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P. P. Simpson	17	17	2	2
P. F. Kelso	9	8	-	-
D. Dixon	17	17	2	2
W. Johnson	17	15	2	2
G. C. Reveleigh	7	6	-	-
M. J. Carling	3	3	-	-
P. A. Wicks	3	3	-	-

Indemnifying Officers or Auditor

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

Subsequent to the financial year, the company entered into indemnity and access deeds with each of the directors, indemnifying the Director against all liabilities incurred as an officer of the Company or any other group company to the extent permitted by the Corporations Act 2001.

The Company has placed run off insurance for the directors of Great Artesian Oil & Gas Limited subsequent to the financial year.

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

Options

At the date of this report, the unissued ordinary shares of Drillsearch Energy Limited under option are as follows:

Name	No. of options granted	Issuing entity	Exercise Price	No. of ordinary shares under option
Mr. L. D. H. Williams	2,250,000	Drillsearch Energy	\$0.0866	2,250,000
Mr. C. Carty	9,000,000	Drillsearch Energy	\$0.0700	9,000,000
Mr. P. W. Hopkins	2,250,000	Drillsearch Energy	\$0.0866	2,250,000
Mr. J. McKerlie	2,250,000	Drillsearch Energy	\$0.0866	2,250,000
Mr. I. W. Bucknell	1,500,000	Drillsearch Energy	\$0.0833	1,500,000
Alchemy Securities Pty Ltd	1,500,000	Drillsearch Energy	\$0.0400	1,500,000
		Total		18,750,000

Directors Report

The options issued to Peter Hopkins, David Williams, Chris Carty, Jim McKerlie and Ian Bucknell, have been issued under the cancellation of options deeds entered into between Drillsearch, Great Artesian and the Great Artesian option holders. Under those agreements each Great Artesian option holder agreed to the cancellation of their Great Artesian options on the implementation date of the merger between Drillsearch and Great Artesian, in consideration for the issue of options over Drillsearch shares on identical terms save for the number of options being multiplied by three and the exercise price being divided by three.

The options issued to Alchemy Securities Pty Limited were issued as part consideration for services provided by RFC Corporate Finance Limited in connection with the scheme of arrangement between Great Artesian Oil and Gas Limited and its shareholders.

At the date of this report, there are no other unissued shares under option.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2008:

	\$
Taxation services	2,500
Due diligence investigations	-
	<u>2,500</u>

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 58 of the directors' report.

Signed in accordance with a resolution of the Board of Directors.



Mr. P. P. Simpson, Chairman

Dated this 30th

day of September

2008

Income Statementfor the year ended 30th June, 2008

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	2	24,138,210	15,536,753	15,724,808	10,073,067
Change in inventories		381,026	648,749	381,026	648,749
Raw materials and consumables used		(7,909,718)	(6,201,630)	(5,292,355)	(4,101,372)
Employee benefits expense		(992,367)	(1,499,830)	(984,570)	(1,125,858)
Depreciation and amortisation	9, 10	(3,775,573)	(1,333,995)	(1,609,128)	(706,530)
Impairment of capitalised exploration and development expenditure	10	(14,346,191)	(1,871,148)	(9,230,575)	(1,040,690)
Impairment of loans to subsidiaries		-	-	(819,147)	-
Finance costs	12	(5,397,178)	(94,339)	(5,380,385)	(77,735)
Other expenses		(5,774,677)	(1,956,944)	(1,975,540)	(1,242,964)
Profit/(loss) from ordinary activities before income tax expense	3	(13,676,468)	3,227,616	(9,185,866)	2,426,667
Income tax (expense)/recovery	4	209,081	10,776	-	-
Net profit/(loss)		(13,467,387)	3,238,392	(9,185,866)	2,426,667
Net profit/(loss) attributable to minority equity interests		596,309	205,790	-	-
Net profit/(loss) attributable to members of the parent entity		(14,063,696)	3,032,602	(9,185,866)	2,426,667
Basic earnings/(loss) per share (cents per share)	28	(0.0212)	0.0074		
Diluted earnings/(loss) per share (cents per share)	28	(0.0212)	0.0074		

The accompanying notes form part of these financial statements

Balance Sheetfor the year ended 30th June, 2008

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008 \$	2007 \$	2008 \$	2007 \$
Current Assets					
Cash and cash equivalents	5	11,914,442	2,706,148	9,663,540	1,797,049
Trade and other receivables	6	4,558,150	2,578,900	6,835,457	6,371,453
Financial assets	7	7,001	123,493	7,001	23,492
Inventories	8	2,171,893	1,718,258	2,171,893	1,718,258
Total Current Assets		18,651,486	7,126,799	18,677,891	9,910,252
Non-Current Assets					
Trade and other receivables	6	168,579	167,351	168,579	167,351
Financial assets	7	-	1,414,776	7,012,364	8,506,594
Property, plant & equipment	9	10,377,944	10,579,250	8,113,242	8,228,998
Other non-current assets	10	34,061,839	42,958,281	29,410,249	32,350,670
Deferred tax assets		324,086	-	-	-
Total Non-Current Assets		44,932,448	55,119,658	44,704,434	49,253,613
Total Assets		63,583,934	62,246,457	63,382,325	59,163,865
Current Liabilities					
Trade and other payables	11	3,388,080	7,729,378	4,578,288	8,586,781
Financial Liabilities	12	-	5,344,859	-	5,087,070
Current tax liabilities	13	3,726,510	-	-	-
Short term provisions	14	11,584	12,245	11,584	12,244
Total Current Liabilities		7,126,174	13,086,856	4,589,872	13,686,469
Non-Current Liabilities					
Financial Liabilities	12	-	14,934,875	-	14,934,875
Other long term provisions	14	2,384,205	2,157,300	255,000	279,313
Deferred tax liabilities	13	207,642	301,950	-	-
Total Non-Current Liabilities		2,591,847	17,394,125	255,000	15,214,188
Total Liabilities		9,718,021	30,480,607	4,844,872	28,900,283
Net Assets		53,865,913	31,765,850	58,537,453	30,263,582
Equity					
Issued capital	15	67,802,582	30,339,117	67,802,582	30,339,117
Reserves		(294,076)	1,305,763	(439,356)	(435,628)
Accumulated losses		(16,058,273)	(1,994,577)	(8,825,773)	360,093
Parent entity interest		51,450,232	29,650,303	58,537,453	30,263,582
Minority equity interest	16	2,415,681	2,115,547	-	-
Total Equity		53,865,913	31,765,850	58,537,453	30,263,582

The accompanying notes form part of these financial statements.

Statement of Cash Flowsfor the year ended 30th June, 2008

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash Flows from Operating Activities					
Receipts from petroleum operations*		22,982,312	15,325,268	16,006,922	10,479,811
Payments to suppliers and employees*		(15,703,742)	(7,093,969)	(11,770,314)	(4,207,439)
Dividends received		1,000	-	1,000	-
Interest received		306,169	131,643	306,169	131,643
Interest paid		(1,464,841)	(94,339)	(1,448,048)	(77,735)
Income tax paid		-	-	-	-
Net cash provided by/(used in) operating activities	29(b)	6,120,898	8,268,603	3,095,729	6,326,280
Cash Flows from Investing Activities					
Payment for plant and equipment		(142,811)	(7,899,391)	(142,811)	(7,899,391)
Proceeds from sale of property, plant & equipment		517,108	-	1	-
Purchase of non-current investments		-	(605,179)	-	(472,300)
Proceeds from sale of non-current investments		1,514,504	1,386	1,137,176	-
Purchase of investments in related parties		-	(143,675)	-	(143,675)
Repayment of loans from third parties		-	236,785	-	196,245
Loans to third parties		-	(47,379)	-	(118,350)
Loans to related parties		-	-	-	(81,094)
Loans to related parties repaid		-	17,608	345,912	22,609
Payment relating to petroleum properties		(15,587,055)	(17,465,778)	(13,472,169)	(15,347,516)
Net cash provided by/(used in) investing activities		(13,698,254)	(25,905,623)	(12,131,891)	(23,843,472)
Cash Flows from Financing Activities					
Proceeds from issue of shares		38,607,228	-	38,607,228	-
Costs associated with issue of shares		(1,143,763)	-	(1,143,763)	-
Repayments of director related loan		-	-	-	-
Repayment of borrowings		(20,277,542)	(6,421)	(20,021,945)	(6,421)
Proceeds from borrowings		-	17,229,020	-	17,229,020
Net cash provided by/(used in) financing activities		17,185,923	17,222,599	17,441,520	17,222,599
Net Increase/(Decrease) In Cash Held		9,608,567	(414,420)	8,405,022	(294,593)
Cash at Beginning of Financial Year		2,706,148	3,254,086	1,797,049	2,436,964
Effect of Exchange Rates on Cash Holdings in Foreign Currencies		(400,273)	(133,518)	(538,867)	(345,322)
Cash at the End of the Financial Year	29(a)	11,914,442	2,706,148	9,663,204	1,797,049

* Inclusive of GST.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity - Consolidatedfor the year ended 30th June, 2008

	Share Capital	Accumulated Losses	Reserves	Minority Interests	Total
	\$	\$	\$	\$	\$
Balance at 1 July, 2006	30,339,117	(5,027,179)	2,315,785	2,070,476	29,698,199
Shares issued during the year	-	-	-	-	-
Transaction costs	-	-	-	-	-
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
Balance at 1 July, 2007	30,339,117	(1,994,577)	1,305,763	2,115,547	31,765,850
Shares issued during the year	38,607,228	-	-	-	38,607,228
Transaction costs	(1,143,763)	-	-	-	(1,143,763)
Profit attributable to members of parent entity	-	(14,063,696)	-	-	(14,063,696)
Net exchange differences recorded in equity	-	-	(1,731,964)	-	(1,731,964)
Profit attributable to minority shareholders	-	-	-	596,309	596,309
Dividends paid	-	-	-	-	-
Increase in reserves	-	-	132,125	(296,176)	(164,051)
Share value decrement recorded in reserves	-	-	-	-	-
Balance as at 30th June, 2008	67,802,582	(16,058,273)	(294,076)	2,415,681	53,865,913

The accompanying notes form part of these financial statements.

Statement of Changes in Equity – Parent Entityfor the year ended 30th June, 2008

	Share Capital	Accumulated Losses	Reserves	Total
	\$	\$	\$	\$
Balance at 1 July, 2006	30,339,117	(2,066,574)	(369,748)	27,902,795
Shares issued during the year	-	-	-	-
Transaction costs	-	-	-	-
Profit attributable to members of parent entity	-	2,426,667	-	2,426,667
Share value decrement in long term investment recorded in equity	-	-	308,205	308,205
Increase in foreign currency translation reserve	-	-	(374,085)	(374,085)
Balance as at 30th June, 2007	30,339,117	360,093	(435,628)	30,263,582
Balance at 1 July, 2007	30,339,117	360,093	(435,628)	30,263,582
Shares issued during the year	38,607,228	-	-	38,607,228
Transaction costs	(1,143,763)	-	-	(1,143,763)
Profit attributable to members of parent entity	-	(9,185,866)	-	(9,185,866)
Share value decrement in long term investment recorded in equity	-	-	178,235	178,235
Increase in foreign currency translation reserve	-	-	(181,963)	(181,963)
Balance as at 30th June, 2008	67,802,582	(8,825,773)	(439,356)	58,537,453

The accompanying notes form part of these financial statements.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

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, including Australian Accounting interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act, 2001. The financial report also complies with the International Financial Reporting Standards and the interpretations adopted by the International Standards Board.

The financial report covers the consolidated group of Drillsearch Energy Limited and controlled entities, and Drillsearch Energy Limited as an individual company in its own right. Drillsearch Energy Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The accounting policies set out have been consistently applied to all years presented.

Reporting basis and conventions

This financial report has been prepared on accrual and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. The functional currency and presentation currency of Drillsearch is Australian dollars.

Accounting Policies

a) Principles of Consolidation

A controlled entity is any entity Drillsearch Energy Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in Note 21 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b) 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 group. Revenue from the sale of goods is recognised upon the earlier of when the products are delivered to the customers or when title has passed to the customer.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

Interest Income

Interest revenue is recognised on a proportional basis taking into account rates applicable to the financial assets.

Asset Sales

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

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks having a maturity of 12 months or less, and other deposits with a financial institution with original maturities of twelve months or less.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

d) 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.

e) 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 both accounting nor taxable profit, and 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.

f) Investments

Controlled Entities

Investments in controlled entities are carried in the parent 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 group'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 group's interests are shown in Note 19.

g) Property, Plant and Equipment

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

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

h) Depreciation and Amortisation

Items of plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated and amortised over their estimated useful lives to the consolidated group. 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
Petroleum Properties	5-15%
Plant and Equipment	5-30%
Furniture and Fixtures	5-30%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

i) Exploration, Evaluation and Development Expenditure

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.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

j) Petroleum Properties

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. 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.

With respect to petroleum production properties held by the parent entity, amortisation is calculated by reference to the estimated life of the producing fields within those properties. With respect to petroleum production properties held by the parent entity's Canadian subsidiaries, depletion of oil and gas properties and amortisation of production facilities and equipment 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 calculation, proven oil and gas reserves before royalties are converted to a common unit of measure.

The estimated costs for developing proved undeveloped reserves, future 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.

k) 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 asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been re-valued, 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 duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks 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.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

l) 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 productive 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.

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.

m) Leases

Leases of property, plant and equipment, where the consolidated group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated group as lessee are classified as operating leases. 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.

n) 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.

o) Inventories

Inventories are measured at lower of cost and net realisable value. The cost of mining stocks includes direct material, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

p) Earnings Per Share

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.

q) Interests in Joint Ventures

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated statements. Details of the consolidated group's interests are shown in Note 19.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

r) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Nonmonetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

Consolidated group

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

s) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to reporting date using the projected unit credit method. Consideration is given to expected future payments are discounted using Commonwealth Government bonds at balance sheet date which have maturities that match, as closely as possible, the estimated future cash outflows.

Superannuation

The Company and controlled entities contribute to employee superannuation plans. Contributions are recognised as an expense in the income statement as incurred. The company or controlled entities do not contribute to any defined benefit plan.

Share-based payments

Share-based compensation benefits are provided to employees via the Employee Incentive Plan. The value of the share based payments is recognised as an expense in the periods the benefit is earned. The value is determined as the fair value of the options at the grant date using a Black-Scholes option pricing model.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

t) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

u) Payables

Trade and Other Creditors

These amounts represent unpaid liabilities for goods and services provided to the parent entity and consolidated group 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 necessary comparative information has been reclassified and repositioned for consistency with the current year disclosures.

x) Goods & Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

y) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

z) Financial instruments

Recognition

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss. Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

1. Statement of Significant Accounting Policies (Continued)

z) Financial instruments (continued)

Receivables

Receivables are recognised when the risks and rewards of ownership of the underlying sales transactions have passed to customers. Credit terms are 14 days in Australia and 25 days in Canada. Collectability of overdue accounts is assessed on an ongoing basis. Specific provisions are made for all doubtful accounts.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available for sale financial assets are reflected either at fair value or cost. Cost is used where there is no ability to value the financial assets. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, using the effective interest rate method.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Estimates of Reserves

The estimated quantities of proven and probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and amortisation expense and to the assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves.

Note	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Sales revenue				
- Australia	15,183,985	9,383,130	15,183,985	9,383,130
- Canada	7,756,405	5,462,460	-	-
- Interest and dividend received	349,820	131,643	323,688	131,643
Total revenue	23,290,210	14,977,233	15,507,673	9,514,773
Other Income				
Fair value gain/(loss)	(4,492)	(159,565)	-	(159,565)
Gain on sale of investments	569,145	(44,612)	-	(44,612)
Other Income	-	738,447	-	737,221
Net Proceeds on disposal of property, plant & equipment	273,347	2,545	-	2,545
Management fees	10,000	22,705	217,135	22,705
	848,000	559,520	217,135	558,294
2a Dividend revenue from:				
-Other corporations	1,000	-	1,000	-
Interest revenue from:				
- other persons	348,820	131,643	322,688	131,643
Total Dividend and Interest	349,820	131,643	323,688	131,643

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

3. Profit for the year

Expenses

Cost of sales		7,528,692	6,201,630	4,911,329	4,101,372
Depreciation of non-current assets		313,548	300,231	237,569	234,066
Amortisation of non-current assets	3a	3,462,026	2,095,935	1,371,559	1,484,913
Impairment Charges	3a	6,391,206	-	1,844,051	-
Impairment of loans to subsidiaries		-	-	819,147	-
Share valuation decrement		4,492	159,565	4,492	159,565
Bad and doubtful debts					
- trade receivables		824	11	824	11
- term receivables		-	(27,221)	-	-
- other parties		211,381		24995	-
Total bad and doubtful debts		212,205	(27,221)	25,819	-
Provision for employee entitlements		(24,972)	14,535	(24,972)	14,535
Employee benefit expense		992,367	1,499,830	984,570	1,125,858

b) Significant Revenues and Expenses

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

Write off of capitalised exploration expenditure	3b	7,954,985	839,896	7,386,524	9,438
Interest and finance charges					
- external	3c	5,397,178	94,339	5,380,385	77,735
Provision for Interest on tax payable by foreign subsidiary	3d	2,154,184	-	-	-

3a) amortisation for Parent entity includes primarily the amortisation charge on producing petroleum properties in permits ATP 259 and ATP 299 of the cooper basin joint venture. Amortisation for the consolidated group includes, in addition to parent entity, charge on the producing petroleum properties in Canada owned by partly owned subsidiary Circumpacific Corporation. Drillsearch Energy (Canada) Incorporated recognised an impairment loss of CAD\$104,100 relating to Talbot Lake Pipeline gas wells 02-32-096-10W5 to 04-03-096-10W5 and a further impairment loss of CAD\$4,022,985 of the remaining Talbot Lake gas properties as proven or probable reserves had not been determined on the property.

The capitalised exploration and development expenditure in permits ATP 259 and ATP 299 of the cooper basin joint venture were tested for impairment on the basis on wells that were plugged and abandoned. Impairment values on those assets were expensed during the year.

3b) the Marina-1 wildcat exploration well in the Bonaparte basin of Western Australia drilled in September, 2007 in a joint venture with Esso Australia Pty Ltd. 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.

3c) the \$18.4 million Meridian loan facility was completely repaid during the year. The interest, various fee and option relinquishment consideration paid for the current year and those that were capitalised in the previous years were expensed in the current year. Interest was also paid to joint venture parties.

3d) the wholly owned subsidiary Drillsearch Energy (Canada) Inc. provided for penalty interest on the reassessment of year 2000 tax filing. It amounted to CAD 1,949,967.

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008

Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
4. Income tax expense				
(a) The components of income tax expense comprise:				
Current income tax change	-	-	-	-
Reassessment of Canadian Tax Payable by Subsidiary	414,386	-	-	-
Reversal/adjustment of Deferred Tax Liabilities previously recognised	(623,467)	(10,776)	-	-
Income tax expenses of Australian subsidiary	-	-	-	-
Net Income Tax Expense	(209,081)	(10,776)		
(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(4,102,940)	(909,781)	(2,505,153)	728,000
total tax effect on non-deductible items	4,254,783	-	3,410,596	4,274,199
total tax effect on tax deductible items	3,219,550	-	3,056,030	-
Subtotal	3,067,708	(909,781)	2,150,587	728,000
Tax portion of capital raising costs recognised in the profit & loss				
Reassessment of Canadian Tax Payable by Subsidiary	414,386	-	-	-
Reversal/adjustment of Deferred Tax Liabilities previously recognised	(623,467)	(10,776)	-	-
Income tax expenses of Australian subsidiary	-	-	-	-
Tax effect of tax losses not brought to account as they do not meet the recognised criteria	(3,067,708)	909,781	(2,150,587)	(728,000)
Deferred tax asset in respect of tax losses not brought to account	-	-	-	-
Income tax attributable to operating loss	(209,081)	(10,776)	-	-

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
5. Cash and cash equivalents					
Cash at bank and in hand		2,401,783	1,009,463	150,881	100,364
Short-term bank deposits		9,512,659	1,696,685	9,512,659	1,696,685
		11,914,442	2,706,148	9,663,540	1,797,049

The effective interest rate on short-term bank deposits was 4.41% (2007: 4.48%); these deposits have an average maturity of 1 day.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	29				
Cash and cash equivalents		11,914,442	2,706,148	9,663,540	1,797,049
Bank overdrafts		-	-	-	-

6. Trade and other receivables**Current:**

Trade receivables		3,765,557	2,392,511	2,126,518	1,170,479
Other receivables and prepayments		719,198	100,247	20,631	48,044
Less: Provision for impairment of receivables		(61,914)	(61,915)	-	-
		4,422,841	2,430,844	2,147,150	1,218,523

Unsecured loans receivable from:

- wholly owned subsidiaries		-	-	5,318,798	4,621,675
- partly owned subsidiaries		-	-	53,347	395,596
- director related entities		-	-	-	-
- other parties		135,309	148,056	135,309	135,659
Less: Provision for impairment of loans from subsidiaries		-	-	(819,147)	-
		135,309	148,056	4,688,307	5,152,930

Total Current receivables

		4,558,150	2,578,900	6,835,456	6,371,453
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Non-Current:

Security deposits	6a	113,296	113,296	113,296	113,296
Rental Bond		55,283	54,055	55,283	54,055
Total Non-Current Receivables		168,579	167,351	168,579	167,351

(6a) the security deposits are deposits with banks for compliance with Permit rules.

7. Financial assets**a) Current assets – Other financial assets at fair value through profit or loss.**

i) Australian listed equity securities		7,000	23,492	7,000	23,492
ii) Unlisted shares		1	100,001	1	-
Total		7,001	123,493	7,001	23,492

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**7. Financial assets (continued)**

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
b) Non-current assets – Available for sale financial assets					
i) Listed securities					
- Equity securities		-	1,414,776	-	1,207,826
ii) Unlisted securities					
- Equity securities		-	-	-	-
		-	1,414,776	-	1,207,826
iii) Non current assets – other financial assets					
- Shares in controlled entities at cost		-	-	7,012,364	7,298,768
Total non-current financial assets		-	1,414,776	7,012,364	8,506,594

8. Inventories

Petroleum (crude oil & condensate) at cost	2,036,625	1,655,599	2,036,625	1,655,599
Consumable supplies at cost	135,268	62,659	135,268	62,659
Total Inventory	2,171,893	1,718,258	2,171,893	1,718,258

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

9. Property, Plant and Equipment

Production Plant on Petroleum properties	12,076,650	3,933,296	8,610,713	778,724
Additions during year	1,380,186	779,205	645,774	277,995
Transferred from development	-	7,563,535	-	7,553,994
Disposals during the year	-	(34,416)	-	-
Foreign Currency Translation	(180,784)	(164,969)	-	-
Profit and disposal	-	-	-	-
Accumulated depreciation	(2,992,720)	(1,910,034)	(1,204,493)	(484,105)
	10,283,332	10,166,617	8,051,994	8,126,608
Other Property and Equipment				
(i) Plant and equipment	582,476	932,399	210,738	202,536
Accumulated depreciation	(504,317)	(555,166)	(165,943)	(135,546)
	78,159	377,233	44,795	66,990
(ii) Leased assets	-	22,397	-	22,397
Accumulated amortisation	-	(11,002)	-	(11,002)
Total leased assets		11,395		11,395
(iii) Leasehold improvements	-	12,043	-	12,043
Accumulated amortisation	-	(12,043)	-	(12,043)
Total leasehold improvements	-	-	-	-
(iv) Intangible assets				
Computer software	57,552	55,502	57,552	55,502
Accumulated depreciation	(41,099)	(31,497)	(41,099)	(31,497)
Total intangible assets	16,453	24,005	16,453	24,005
Total property, plant and equipment	10,377,944	10,579,250	8,113,242	8,228,998

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

9. Property, Plant and Equipment (continued)

Reconciliation

Reconciliations of the carrying amounts of each class of property, plant and equipment (see above) at the beginning and end of the current financial year are set out below:

	Production Plant - Petroleum Properties	Plant & Equipment	Leased Assets	Intangibles Computer Software	Total
Consolidated					
Carrying amount at 01.7.2007	10,166,617	377,233	11,395	24,005	10,579,250
Additions	1,380,186	11,238	-	2,050	1,393,474
Transferred from development	-	-	-	-	-
Disposals	-	(243,855)	(11,395)	-	(255,250)
Depreciation/amortisation	(1,082,687)	(66,457)	-	(9,602)	(1,158,746)
Foreign currency exchange differences	(180,784)	-	-	-	(180,784)
Carrying amount at 30.6.2008	10,283,332	78,159	-	16,453	10,377,944
Parent Entity					
Carrying amount at 01.7.2007	8,126,608	66,990	11,395	24,005	8,228,998
Additions	645,775	8,202	-	2050	656,027
Transferred from development	-	-	-	-	-
Disposals	-	-	(11,395)	-	(11,395)
Depreciation/amortisation	(720,389)	(30,397)	-	(9,602)	(760,388)
Carrying amount at 30.6.2008	8,051,994	44,795	-	16,453	8,113,242

10. Other non-current assets

	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
Exploration Expenditure				
Balance brought forward	4,841,990	4,640,146	3,458,024	2,628,194
Expenditure incurred during year	7,002,809	1,197,288	6,129,347	839,268
Expenditure written off during the year	(8,681,201)	(839,896)	(7,386,524)	(9,438)
Foreign currency translation	(42,626)	(155,548)	-	-
Balance carried forward	3,120,972	4,841,990	2,200,847	3,458,024
Development Expenditure				
Balance brought forward	24,185,294	14,449,164	21,443,550	11,303,234
Expenditure incurred during year	4,381,706	23,002,891	4,057,421	22,175,598
Borrowing costs capitalised	1,306,406	2,792,925	1,306,407	2,792,925
Transferred to petroleum properties	(5,774,908)	(7,197,052)	(5,774,908)	(6,242,961)
Transferred to property, plant & equipment	-	(7,563,535)	-	(7,553,994)
Expenditure written off during the year	(6,530,751)	(1,031,252)	(5,838,649)	(1,031,252)
Foreign currency translation	(183,739)	(267,847)	-	-
Balance carried forward	17,384,008	24,185,294	15,193,821	21,443,550

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**10. Other non-current assets (continued)**

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
Petroleum Properties					
Balance brought forward		13,930,997	8,171,930	7,449,096	1,619,743
Expenditure incurred during the year		439,098	416,738	2,794	40,053
Transferred from development properties		5,774,908	7,197,052	5,774,908	6,242,961
Depletion and amortisation expense		(6,139,401)	(872,643)	(1,211,217)	(453,661)
Foreign currency translation		(438,086)	(847,979)	-	-
Disposals during period		(10,657)	(134,101)	-	-
Balance carried forward		13,556,859	13,930,997	12,015,581	7,449,096
Total exploration, development & petroleum properties		34,061,839	42,958,281	29,410,249	32,350,670

(a) The impairment of capitalised exploration and development expenditure was principally due to commercially unsuccessful drilling costs associated with Marina 1 well in Bonaparte basin totalling \$7.2 million and drilling expenditure for wells plugged and abandoned in ATP 259 and ATP 299. The capitalised borrowing cost of \$4 million associated with the Meridian Facility was also written off on complete repayment of the facility.

11. Trade and other payables**Current:**

Trade Creditors		2,740,008	7,496,670	1,940,293	6,649,833
Other Creditors		648,072	232,708	392,126	204,145
Loans					
- director related entities	27	-	-	-	-
- wholly owned subsidiaries	27	-	-	2,245,869	1,732,804
		3,388,080	7,729,378	4,578,288	8,586,781

12. Financial liabilities**Current:****Unsecured Liabilities**

Other loans		-	90,658	-	-
Lease and hire purchase liabilities	20	-	-	-	-
Secured Liabilities					
- mortgage loans		-	5,254,201	-	5,087,070
		-	5,344,859	-	5,087,070

Non-Current:**Secured Liabilities**

- mortgage loans		-	14,934,875	-	14,934,875
		-	14,934,875	-	14,934,875

Mortgage and Other Loans:

Meridian International Loan Facility Costs	\$
Loan principal	20,271,115
Establishment fees	752,500
Commitment fees	166,681
Interest expense	2,321,474
Restructure fees	165,000
Synthetic options	1,250,000
Intellectual property fee	600,000
Total cost of loan facility	25,526,770

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

12. Financial liabilities (continued)

1. On 29 September, 2006, Drillsearch entered into an \$18.54 million, three (3) year loan facility, with Meridian International Capital Limited, Sydney ("Meridian"). This loan was extended by a further \$1.73 million in July 2007.
2. During the financial year the loan facility was terminated. The material terms of the loan facility at the time of termination included:
 - a) Facility amount and interest – at an interest rate of 90 day BBSY, plus margin of 3.5%.
 - b) Security – first ranking charge and mortgage over Drillsearch's interests in the Tintaburra (ATP.299P) joint venture including petroleum leases and tangibles.
 - c) Synthetic Options - That Drillsearch pay variable Loan Facility Risk Sharing (or incentive) cash fees to Meridian calculated by reference to a contractual formula described as synthetic options. The term "synthetic option" did not grant any options over the unissued capital of Drillsearch. Upon termination of the loan facility agreement was reached to cancel these options for \$1.25 million.
3. A fee of \$600,000 for the purchase of intellectual property was also paid to Meridian on termination of the loan facility
4. Establishment and other transaction costs incurred in connection with the loan facility that were capitalised to development costs were written off on repayment of the loan facility.

Explanation of Finance Costs	<i>Consolidated Group</i> \$	<i>Parent Entity</i> \$
Meridian loan facility fee including capitalised commitment and establishment fee	(1,282,500)	(1,282,500)
Meridian loan Interest including capitalised interest expensed during the year	(4,038,277)	(4,038,277)
Interest paid to Joint venture parties	(58,128)	(58,128)
Interest paid to tax authorities	(1,480)	(1,480)
Interest charge in Canadian subsidiaries	(16,793)	-
	(5,397,178)	(5,380,385)

Mortgage

The loan of \$167,131 that was secured by a mortgage over a condominium in Canada owned by a wholly owned subsidiary was repaid from the sale proceeds of the condominium during the financial year.

13. Tax liabilities

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>			
		2008	2007	2008	2007		
		\$	\$	\$	\$		
Current							
Income tax	a	3,726,510	-	-	-		
Non-Current							
Consolidated Group		Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
		\$	\$	\$	\$	\$	\$
Deferred Tax Liability							
Balance at 30 June 2007		-	-	-	-	-	-
Other		-	207,641	-	-	-	207,641
Balance at 30 June 2008		-	207,641	-	-	-	207,641

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008

<i>Consolidated Group</i>	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$	\$
Deferred Tax Assets						
Balance at 30 June 2007	-	-	-	-	-	-
Other	-	324,085	-	-	-	324,085
Balance at 30 June 2008	-	324,085	-	-	-	324,085

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

	2008 \$	2007 \$
temporary differences	-	-
tax losses: operating losses	3,067,708	(909,781)
tax losses: capital losses	-	-

Parent Entity

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

	2008 \$	2007 \$
temporary differences	-	-
tax losses: operating losses	2,150,587	(728,000)
tax losses: capital losses	-	-

- a. During the financial year, Drillsearch Energy Canada Incorporated, a wholly owned subsidiary of Drillsearch, received a re-assessment for the 2000 taxation year. The liability including penalties and interest now stands at CAD \$3,620,305. The Company has referred this matter to legal counsel and has formally objected to the re-assessment.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

14. Provisions

<i>Consolidated Group</i>	Site Restoration	Long term Employee Benefit	Other	Total
	\$	\$	\$	\$
Opening balance at 1 July 2007	2,132,988	36,557	-	2,169,545
Additional provisions	594,514	8,073	-	602,587
Amounts used	(160,548)	-	-	(160,548)
Unused amounts reversed	(10,823)	(33,044)	-	(43,867)
Increase/Decrease in the amount arising because of the effect of any change in the exchange rate	(171,925)	-	-	(171,925)
Increase in the discounted amount arising because of time and the effect of any change in the discount rate	-	-	-	-
Balance at 30 June 2008	2,384,206	11,586	-	2,395,792
<i>Parent Entity</i>				
Opening balance at 1 July 2007	255,000	36,557	-	291,557
Additional provisions	-	8,073	-	8,073
Amounts used	-	-	-	-
Unused amounts reversed	-	(33,044)	-	(33,044)
Increase in the discounted amount arising because of time and the effect of any change in the discount rate	-	-	-	-
Balance at 30 June 2008	255,000	11,586	-	266,586
	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
Analysis of total provisions				
Current:				
Employee benefits	11,586	12,245	11,586	12,245
Non-Current:				
Employee benefits	-	24,312	-	24,312
Site restoration & rehabilitation	2,384,206	2,132,988	255,000	255,000
	2,384,206	2,157,300	255,000	279,313

Provision for Site Restoration

A provision has been recognised for the costs to be incurred for the restoration of the well sites used for the exploration of petroleum and gas. It is anticipated that the well will require restoration within next 5 years. A discount rate adjusted to reflect the risk inherent in the drilling operation has been applied.

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to annual leave. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

15. Issued capital

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
(a) Issued Capital 1,116,136,088 shares (2007: 403,393,696)					
Ordinary shares fully paid		67,802,582	30,339,117	67,802,582	30,339,117

(b) Movements in issued ordinary shares

Date	Details		Number of Shares	Issued Price Cents	Amount \$
30.6.2007	Opening Balance		403,393,696		30,339,117
04.09.07	Shareholder Share Purchase Plan	(a)	63,089,279	11.295	7,126,000
08.10.07	Rights Issue	(b)	91,585,065	10	9,158,506
22.02.08	Rights Issue	(c)	211,149,720	4	8,445,989
20.03.08	Shortfall placement of shares	(d)	20,975,478	4	839,019
22.04.08	Shortfall placement of shares	(d)	302,317,850	4	12,092,714
24.04.08	Shortfall placement of shares	(d)	23,625,000	4	945,000
			1,116,136,088		68,946,345
Less:	Transaction costs arising on share issues recognised directly in equity		-		(1,143,763)
30.6.2008	Balance		1,116,136,088		67,802,582
30.6.2006	Opening Balance		403,393,696		30,339,117
	Issued during the year		-		-
30.6.2007	Closing Balance		403,393,696		30,339,117

- 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 each.
- b) On 8th of October 2007, a Rights Issue resulted in 91,585,065 shares allotted at 10 cents each.
- c) On 22nd of February 2008, a Rights Issue resulted in 211,149,720 shares allotted at 4 cents each.
- 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 each. These shares include 23,625,000 shares allotted to Great Artesian Oil and Gas Ltd. which became a wholly owned subsidiary of the parent since the reporting date.

(c) Options

- (i) Drillsearch Energy Limited does not have an employee option plan.
- (ii) For information relating to share options issued to key managerial personnel during the financial year, refer to note 30 on Share Based Payments.

(d) Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern. The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
Total borrowings	11,12	3,388,080	22,664,253	4,578,288	23,521,656
Less cash and cash equivalents	5	(11,914,442)	(2,706,148)	(9,663,540)	(1,797,049)
Net debt		(8,526,362)	25,302,964	(5,085,252)	26,811,677
Total equity		53,865,913	31,765,850	58,537,453	30,263,582
Total capital		45,339,551	57,068,814	53,452,201	57,075,259
Gearing ratio		N/A	40%	N/A	41%

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

16. Reserves

a. Capital Profits Reserve

The capital profits reserve records non-taxable profits on sale of investments.

b. Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve.

c. Asset Realisation Reserve

The asset realisation reserve records realised gains on sales of non-current assets.

d. Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

e. General Reserve

The general reserve records funds set aside for future expansion of the consolidated group.

f. Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

g. Financial Assets Reserve

The financial assets reserve records revaluation of financial assets.

h. Hedge Reserve

The hedge reserve records revaluations of items designated as hedges.

17. Capital and leasing commitments

Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Capital expenditure commitments				
Expenditure commitments on existing oil and gas properties*	19,174,000	5,912,000	14,717,000	5,912,000
Payable:				
- no later than 12 months	12,361,000	5,912,000	9,772,000	5,912,000
- between 13 months and but not later than 2 years	6,813,000	-	4,945,000	-
	19,174,000	5,912,000	14,717,000	5,912,000
(b) Finance Lease Commitments				
Finance lease rentals are payable as follows:				
- no later than 12 months	-	-	-	-
- between 13 months and but not later than five years	-	-	-	-
	-	-	-	-
Less: Finance charges	-	-	-	-
	-	-	-	-

*Including commitments of Great Artesian Oil and Gas Limited, which became a wholly owned subsidiary of Drillsearch Energy limited after the balance sheet date. These commitments may alter or the permit/interest be relinquished depending upon exploration results or the Companies decision to farm in or out or permits.

(c) Operating Lease Commitments

As at 30th June, 2008, the consolidated group had commitments for rental of office space and equipment. The minimum payments are as follows:

Not later than one year	333,577	233,398	157,860	153,264
Later than one year but not later than five years	1,024,139	218,133	631,440	153,264

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008

1,357,716	451,531	789,300	306,528
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18. Contingent liabilities and contingent assets

<i>Consolidated Group</i>		<i>Parent Entity</i>	
2008	2007	2008	2007
\$	\$	\$	\$

Estimates of the potential financial effect of contingent liabilities that may become payable:

Contingent Liabilities

Contingent liability in respect of Canadian income tax, due to the deferral of income tax liability of the parent entity (Canadian branch) in respect of that portion of the consideration received on sale of petroleum properties to another subsidiary that comprises shares in Drillsearch Energy (Canada) Inc. As the parent entity (Canadian Branch) has no intention of selling the shares, this amount is regarded as a contingent liability.

476,475	476,475	-	-
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Subsequent to previous financial year end Drillsearch Energy Canada Inc. a wholly owned subsidiary of Drillsearch received a re-assessment for the 2000 taxation year in an amount of CAD \$2,307,738 including penalties and interest. The subsidiary is in the process of objecting to the revised assessment. As a result of the re-assessment the subsidiary is likely to be re-assessed for provincial tax. Pending the outcome of the re-assessment, the wholly owned subsidiary has now recognized an estimate of tax and interest payable.

-	2,571,295	-	-
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476,475	3,047,770	-	-
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Contingent Assets**Litigation with Joint Venture participant**

During the year, the controlled entity Circumpacific Energy Corporation continued proceedings against Talisman Energy Canada and Talisman Energy Inc. ("Talisman") seeking declaration that it had earned an interest in Section 18-08-01-13 W6M (PNG Basal Kiskatinaw) and the well Talisman et al Mica 10-18-081-13 (00.10-18-081-13 W6/0) (the "mica" 10-18 Well"). The controlled entity has also claimed an account of net revenues and other relief. Talisman has counter claimed that the controlled entity had no interest in the said lands and wells.

The controlled entity is currently unable to estimate the effect, if any, of the outcome of the claim. No provision has been made in the accounts or in the financial statements of the controlled entity with respect to this matter. Any revenues and expenses will be reflected in the statement of operations in the year the claim is settled.

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Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

19. Joint venture interests

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
a) Joint venture interests in oil and gas properties have been included in the balance sheet as follows:					
Current Assets					
Cash and cash equivalents		779,140	-	779,140	-
Receivables		1,332,996	2,395,377	1,295,116	1,173,346
Petroleum inventory		2,036,625	1,655,599	2,036,625	1,655,599
Stores on hand		135,268	62,659	135,268	62,659
		4,284,029	4,113,635	4,246,149	2,891,604
Non- Current Assets					
Exploration & evaluation		1,789,301	3,283,513	1,392,431	3,239,359
Development		15,193,821	24,185,294	15,193,821	21,443,555
Petroleum properties		13,187,342	13,930,998	12,015,581	7,449,096
Production plant & equipment		8,051,994	10,166,616	8,051,994	8,126,608
		38,222,458	51,566,421	36,653,827	40,258,613
Total Joint Venture Assets		42,506,487	55,680,056	40,899,976	43,150,217

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploration or alternatively, sale of the respective areas of interest.

Liabilities

Trade and other payables		1,846,082	6,483,322	1,841,978	6,483,322
Provisions		-	-	-	-
Total Joint Venture Liabilities		1,846,082	6,483,322	1,841,978	6,483,322
Net assets		40,660,405	49,196,734	39,057,998	36,666,895

a) Joint Venture Interests

The parent entity has various joint venture interests in petroleum tenements – See Schedule of Petroleum Tenements.

20. Financial Risk Management

(a) Financial Risk Management Policies

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

Exposure to currency risk, interest rate risk, commodity risk, and liquidity risk arises in the normal course of the business. The consolidated group's overall financial risk management strategy is to seek to ensure that the consolidated group is able to fund its business plans. The consolidated group does not have derivative financial instruments as at 30 June 2008.

The consolidated group uses various measures dependent on the types of risk to which it is exposed. These methods include cash flow at risk analysis in the case of interest rate, foreign currency and commodity price risk, and ageing analysis for credit risk.

(b) Financial instrument risk exposures

The consolidated group is exposed to interest rate risk through short term deposits held.

The consolidated group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**20. Financial Risk Management (continued)****Consolidated Group**

	Weighted Avg. int. rate	Note	Floating Interest Rate \$	Fixed Interest Maturing In:		Non-Interest Bearing \$	Total \$
				1 Year or Less \$	1 to 5 Years \$		
2008							
Financial Assets							
Cash and deposits	4.41%	5	10,914,442	1,000,000	-	-	11,914,442
Receivables		6	-	101,296	-	4,625,433	4,726,729
Other financial assets (shares held as trading stock)		7	-	-	-	7,001	7,001
Non current investment			-	-	-	-	-
			10,914,442	1,101,296	-	4,632,434	16,648,172
Financial Liabilities:							
Trade creditors		11	-	-	-	2,740,008	2,740,008
Other creditors		11	-	-	-	648,072	648,072
Lease and hire purchase liabilities		12	-	-	-	-	-
Mortgage loans		12	-	-	-	-	-
Director related loan		22, 27	-	-	-	-	-
Other loans			-	-	-	-	-
			-	-	-	3,388,080	3,388,080
Net financial assets/(liabilities)			10,914,442	1,101,296	-	1,244,354	13,260,092

Consolidated Group

	Weighted Avg. int. rate	Note	Floating Interest Rate	Fixed Interest Maturing In:		Non-Interest Bearing	Total
				1 Year or Less	1 to 5 Years		
2007							
Financial Assets							
Cash and deposits	4.48%	5	1,696,689	-	-	1,009,459	2,706,148
Receivables		6	-	-	-	2,746,257	2,746,257
Other financial assets (shares held as trading stock)		7	-	-	-	1,538,269	1,538,269
Non current investment			-	-	-	-	-
			1,696,689			5,293,979	6,990,668
Financial Liabilities:							
Trade creditors		11	-	-	-	7,496,670	7,496,670
Other creditors		11	-	-	-	232,708	232,708
Lease and hire purchase liabilities		12	-	-	-	-	-
Mortgage loans	10.31% 9.52%	12	20,189,076	-	-	-	20,189,076
Director related loan		22, 27	-	-	-	-	-
Other loans			-	90,658	-	-	90,658
			20,189,076	90,658	-	7,729,378	28,009,112
Net financial assets/(liabilities)			(18,492,387)	(90,658)	-	(2,435,399)	(21,018,444)

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

20. Financial Risk Management (continued)

Parent Entity

	Weighted Avg. int. rate	Note	Floating Interest Rate \$	Fixed Interest Maturing In:		Non-Interest Bearing \$	Total \$
				1 Year or Less \$	1 to 5 Years \$		
2008							
Financial Assets							
Cash and deposits	5.17%	5	8,663,540	1,000,000	-	-	9,663,540
Receivables (incl. to subsidiaries)		6	-	101,296	-	6,902,740	7,004,036
Other financial assets (shares held as trading stock)		7	-	-	-	7,001	7,001
Non current investment		7	-	-	-	7,012,364	7,012,364
			8,663,540	1,101,296	-	13,922,105	23,686,941
Financial Liabilities:							
Trade creditors		11	-	-	-	1,940,293	1,940,293
Other creditors		11	-	-	-	392,126	392,126
Lease and hire purchase liabilities		12	-	-	-	-	-
Mortgage loans		12	-	-	-	-	-
Director related loan		22, 27	-	-	-	-	-
Loans from subsidiaries			-	-	-	2,245,869	2,245,869
			-	-	-	4,578,288	4,578,288
Net financial assets/(liabilities)			8,663,540	1,101,296	-	9,343,817	19,108,653

Parent Entity

	Weighted Avg. int. rate	Note	Floating Interest Rate	Fixed Interest Maturing In:		Non-Interest Bearing	Total
				1 Year or Less	1 to 5 Years		
2007							
Financial Assets							
Cash and deposits	4.48%	5	1,797,049	-	-	-	1,797,049
Receivables (incl. to subsidiaries)		6	-	101,296	-	6,437,508	6,538,804
Other financial assets (shares held as trading stock)		7	-	-	-	23,493	23,493
Non current investment		7	-	-	-	8,506,594	8,506,594
			1,797,049	101,296	-	14,967,595	16,865,940
Financial Liabilities:							
Trade creditors		11	-	-	-	6,649,833	6,649,833
Other creditors		11	-	-	-	204,145	204,145
Lease and hire purchase liabilities		12	-	-	-	-	-
Mortgage loans	10.31% 9.52%	12	20,021,945	-	-	-	20,021,945
Director related loan		22, 27	-	-	-	-	-
Loans from subsidiaries			-	-	-	1,732,804	1,732,804
			20,021,945	-	-	8,586,782	28,608,727
Net financial assets/(liabilities)			(18,224,896)	101,296	-	6,380,813	(11,742,787)

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

20. Financial Risk Management (continued)

Reconciliation of Net Financial Assets/(Liabilities) to Net Assets

	Note	<i>Consolidated Group</i>		<i>Parent Entity</i>	
		2008	2007	2008	2007
		\$	\$	\$	\$
Net financial assets/(liabilities) as above	20	13,260,092	(21,018,444)	19,108,653	(11,742,787)
Non financial assets and liabilities					
- Inventories	8	2,171,894	1,718,258	2,171,893	1,718,258
- Plant and equipment	9	10,377,946	10,579,250	8,113,242	8,228,998
- Petroleum properties	10	34,061,839	42,958,281	29,410,249	32,350,670
- Provisions	14	(2,395,793)	(2,169,545)	(266,584)	(291,557)
- Deferred tax assets		324,086	-	-	-
- Tax liabilities	13	(3,934,152)	(301,950)	-	-
Net assets per balance sheet		53,865,913	31,765,850	58,537,453	30,263,582

(c) Credit risk exposure

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. The major customers of Drillsearch Energy Limited are substantial organisations and include BP/Caltex, Santos, Origin Energy, Beach Petroleum and Delhi Petroleum.

In addition, receivables balances are monitored on an ongoing basis with the result that the consolidated group's exposure to bad debts is not significant. The consolidated group does not hold collateral, not does it securitise its trade and other receivables.

At 30 June 2008, the consolidated group's maximum exposure to credit risk is represented by the carrying amount of assets of the consolidated group, excluding investments, which have been recognised on the balance sheet. The concentrations of credit risk are as follows:

	<i>Consolidated Group</i>	
	2008	2007
	\$	\$
Business sectors – trade debtors		
- oil and gas	100.0%	100.0%
Countries – trade debtors		
- Australia	78.35%	55.46%
- Canada	21.65%	44.54%

The credit risk of these concentrations of trade debtors is mitigated by the fact that the major customers have been long term, with no collection problems. Management believes that credit risk is minimal.

(d) Foreign currency risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The consolidated group is exposed to foreign currency risk principally through the sale of liquid petroleum products denominated in US dollars, US dollar and Canadian dollar expenditure.

Currently the consolidated group's risk management policy is not to hedge its forecasted cash flows in US dollars. The Consolidated group at 30 June 2008 had no open forward exchange contracts (2007: NIL).

The Australian dollar equivalents of foreign currency balances included in the financial statements which are not effectively hedged are as follows:

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**20. Financial Risk Management (continued)**

	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
US\$				
Cash	2,658,653	970,488	2,658,653	970,488
Receivables	1,174,583	983,089	1,174,583	983,089
Payable	-	-	-	-
	3,833,236	1,953,577	3,833,236	1,953,577
Canada\$				
Cash	2,215,656	907,278	-	-
Trade Receivables	1,846,151	1,410,917	126,309	136,723
Loans Receivables	612,597	11,142	2,414,369	2,153,413
Investments	-	-	7,012,360	7,298,765
Trade Payables	(870,155)	(877,811)	(10,294)	(8,464)
Loans Payable	(3,726,510)	(257,789)	(1,600,814)	(1,732,803)
	77,739	1,193,737	7,941,930	7,847,634
PNG Kina\$				
Loans Receivables	-	-	397,072	621,007
Investments	-	-	1	1
Trade Payables	-	(2,465)	-	-
		(2,465)	397,073	621,008

(e) Net fair value of financial assets and liabilities**Valuation approach**

Net fair value of financial assets and liabilities are determined by the consolidated group on the following basis:

On balance sheet financial instruments

The net fair value of listed shares included in "Other Financial Assets" which are traded in an organised financial market, are determined by valuing them at the current quoted market bid price, adjusted for transaction costs necessary to realise the asset.

For other financial assets and liabilities the net fair value approximates their carrying value.

The carrying amount and net fair values of financial assets and liabilities as at balance date are as follows:

		<i>Consolidated Group</i>		<i>Consolidated Group</i>	
		2008	2008	2007	2007
		Carrying	Net Fair	Carrying	Net Fair
		Amount	Value	Amount	Value
		\$	\$	\$	\$
Financial Assets:					
Cash	5	11,914,442	11,914,442	2,706,148	2,706,148
Receivables	6	4,558,150	4,558,150	2,746,251	2,746,251
Other financial assets (shares held as trading stock) - current	7	7,001	7,001	123,493	123,493
Non-current investments	7			1,414,776	1,414,776
Financial Liabilities:					
Trade creditors	11	2,740,008	2,740,008	7,496,670	7,496,670
Other creditors	11	648,072	648,072	232,708	232,708
Mortgage loans	12	-	-	20,189,076	20,189,076
Director related loan	12	-	-	-	-
Other loans	12	-	-	90,658	90,648

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

20. Financial Risk Management (continued)

The listed shares in other corporations included in other financial assets are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

(f) Sensitivity Analysis

Interest Rate Risk, Foreign Currency Risk and Price Risk

The consolidated group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
Impact on post- tax profit:				
Increase in interest rate by 1% (100 basis points)	(627,357)	(94,192)	(627,357)	(94,192)
Decrease in interest rate by 1% (100 basis points)	341,160	93,875	341,160	93,875
Impact on equity:				
Increase in interest rate by 1% (100 basis points)	(627,357)	(94,192)	(627,357)	(94,192)
Decrease in interest rate by 1% (100 basis points)	341,160	93,875	341,160	93,875

Foreign Currency Risk Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar and to the Canadian Dollar, with all other variables remaining constant is as follows:

	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
Impact on post- tax profit:				
AUD/USD +10% and AUD/CAD +10%(affect on consolidated)	(1,947,700)	(1,301,926)	(1,485,578)	(931,030)
AUD/USD -10% and AUD/CAD -(affect on consolidated)	1,947,700	1,301,926	1,485,578	931,030
Impact on equity:				
AUD/USD +10% and AUD/CAD +10%(affect on consolidated)	(1,947,700)	(1,301,926)	(1,485,578)	(931,030)
AUD/USD -10% and AUD/CAD -(affect on consolidated)	1,947,700	1,301,926	1,485,578	931,030

Price Risk Sensitivity Analysis

The consolidated group is exposed to commodity price fluctuation through the sale of petroleum products denominated in US dollars. The consolidated group may enter into commodity crude oil price swaps and option contracts to manage its commodity price risk.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

20. Financial Risk Management (continued)

As at 30 June 2008 the consolidated group has no open oil price swaps contracts (2007: nil). Below is a table of impact if the Oil price changes by 10% +/- from the average oil price during the year, with all other variables held constant;

Impact on post- tax profit:

Oil price +10%	1,762,973	1,276,466	1,485,578	931,030
Oil price -10%	(1,762,973)	(1,276,466)	(1,485,578)	(931,030)
Impact on equity:				
Oil price +10%	1,762,973	1,276,466	1,485,578	931,030
Oil price -10%	(1,762,973)	(1,276,466)	(1,485,578)	(931,030)

(g) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to meet ongoing operational requirements, exploration and development expenditure, and small to medium sized opportunistic projects and investments, by keeping committed credit facilities available.

21. Particulars in relation to the parent entity and consolidated entities

	Class	% Held 2008	% Held 2007	Place of Incorporation
Parent Entity:				
Drillsearch Energy Limited (3)	Ord	N/A	N/A	Australia
Controlled Entities:				
Drillsearch Energy (Canada) Inc. (1,4)	Ord	100	100	Alberta, Canada
Circumpacific Energy Corporation (2,5,7)	Ord	62.6	62.6	British Columbia, Canada
Kun Yick International Limited (6)	Ord	100	100	Hong Kong
Transoceanic Securities Pty Limited (8)	Ord	100	100	Australia
Drillsearch Energy (PNG) Limited (9)	Ord	100	100	Papua New Guinea
Frontier Bonaparte Pty Ltd (11)	Ord	100	100	Australia
Drillsearch Energy (WA) Pty Limited (10)	Ord	100	100	Australia

Notes:

- Drillsearch Energy (Canada) Inc. is incorporated in the Province of Alberta, Canada.
- Circumpacific Energy Corporation is incorporated in the Province of British Columbia, Canada and is a petroleum producer and explorer.
- The parent entity is audited by DFK - Richard Hill, Chartered Accountants, Sydney, Australia
- Drillsearch Energy (Canada) Inc. operates as a holding company of shares in Circumpacific Energy Corporation and holds a variable 25% to 100% interest in the Talbot Lake gas property, Alberta. Circumpacific Energy Corporation holds an 8% royalty interest.
- Circumpacific Energy Corporation is audited by STS Partners LLP, Chartered Accountants, Vancouver, Canada.
- Kun Yick International Limited, operates solely as a holding company of an inter company loan.
- In 2008 Circumpacific Energy Corporation was controlled by Drillsearch Energy Limited due to the company holding 62.6% of the share capital in Circumpacific Energy Corporation and the fact that both companies shared the same Managing Director/Executive Chairman. (2007: 62.6%)
- Transoceanic Securities Pty Limited is incorporated in New South Wales, Australia. It is audited by DFK - Richard Hill, Chartered Accountants, Sydney, Australia.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

21. Particulars in relation to the parent entity and consolidated Entities

9. Drillsearch Energy (PNG) Limited is incorporated in Papua New Guinea ("PNG") and has joint venture interests in PPL.244, an offshore permit in the Gulf of Papua, PNG. It is audited by DFK - Richard Hill, Chartered Accountants, Port Moresby, PNG.
10. Drillsearch Energy (WA) Pty Limited is incorporated in New South Wales, Australia, and owns the group's interest in the Turtle/Barnett offshore oil discoveries in the Southern Bonaparte Gulf, Australia. It is audited by DFK - Richard Hill, Chartered Accountants, Sydney, Australia.
11. Frontier Bonaparte Pty Ltd. is incorporated in Western Australia, Australia, and owns part of the group's interest in the Turtle/Barnett offshore oil discoveries in the Southern Bonaparte Gulf, Australia. It is audited by DFK - Richard Hill, Chartered Accountants, Sydney, Australia.

22. Key management personnel compensation

Key Management Personnel

a) Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Key Management Person

Mr. P. P. Simpson, Chairman – Non-Executive
 Mr. D. A. Dixon, Director – Non-Executive
 Mr. W. Johnson, Director – Non-Executive
 Mr. M. J. Carling, Director – Non-Executive (appointed 17 April, 2007)
 Mr. P. A. Wicks, Director – Non-Executive (appointed 17 April, 2007)
 Mrs. E. Petrie, Group Parent Geologist
 Mr. P. F. Kelso, Managing Director – Executive (resigned 29 November, 2007)
 Mr. M. L. Hutt, Company Secretary – Parent Entity (resigned 10 December, 2007)
 Mr. G. C. Reveleigh, Director - Non-Executive (resigned 12 November, 2007)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report

b) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.7.2007	Granted as Compensation	Options Exercised*	Net Change Other*
Mr. P. P. Simpson	NIL	-	-	-
Mr. D. A. Dixon	NIL	-	-	-
Mr. W. Johnson	NIL	-	-	-
Mr. M. J. Carling	NIL	-	-	-
Mr. P. A. Wicks	NIL	-	-	-
Mr. P. F. Kelso (resigned 29 Nov 07)	NIL	-	-	-
Mr. M. L. Hutt (resigned 10 th Dec 07)	NIL	-	-	-
Mr. G. C. Reveleigh (resigned 12 Nov 07)	NIL	-	-	-
Mrs. E. Petrie	NIL	-	-	-
Total	NIL	-	-	-

The Net Change Other reflected above includes those options that have been forfeited by holders as well as options issued during the year under review.

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**22. Key management personnel compensation (continued)****Number of Options Held by Key Management Personnel**

	Balance 30.6.2008	Total Vested 30.6.2008	Total Exercisable 30.6.2008	Total Unexercisable 30.6.2008
Mr. P. P. Simpson	NIL	-	-	-
Mr. D. A. Dixon	NIL	-	-	-
Mr. W. Johnson	NIL	-	-	-
Mr. M. J. Carling	NIL	-	-	-
Mr. P. A. Wicks	NIL	-	-	-
Mr. P. F. Kelso (resigned 29 Nov 07)	NIL	-	-	-
Mr. M. L. Hutt (resigned 10 th Dec 07)	NIL	-	-	-
Mr. G. C. Reveleigh (resigned 12 Nov 07)	NIL	-	-	-
Mrs. E. Petrie	NIL	-	-	-
Total	NIL	-	-	-

c) Shareholdings**Number of Shares held by Key Management Personnel**

	Balance 1.7.2007	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2008
Mr. P. F. Kelso (resigned 29 Nov 07)	34,595,870	-	-	-	N/A
Mr. P. P. Simpson	-	-	-	6,275,000	6,275,000
Mr. D. A. Dixon	25,960,000	-	-	24,452,405	50,412,405
W. Johnson	-	-	-	25,000	25,000
Mr. M. J. Carling	-	-	-	1,250,000	1,250,000
Mr. P. A. Wicks	-	-	-	2,000,000	2,000,000
Mr. G. C. Reveleigh (resigned 12 Nov 07)	1,603,967	-	-	-	N/A
Mr. M. L. Hutt (resigned 10 th Dec 07)	536,904	-	-	-	N/A
Mrs. E. Petrie	-	-	-	200,000	200,000

* Net Change Other refers to shares purchased or sold during the financial year.

d) Bonuses granted as compensation for the current financial year

Ms. E. Petrie was granted a cash bonus of \$30,000 on 3rd October 2007. Bonus was awarded in recognition of work done to achieve successful farm out of interest in WA-318-P permit and the Marina-1 drilling costs, as well as work done to plan drilling of Marina-1.

23. Auditors Remuneration

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Amounts received or due and receivable by parent entity auditors for:				
- auditing or reviewing the financial report	85,978	42,000	85,978	42,000
- taxation services	2,500	9,800	2,500	9,800
- due diligence service	-	-	-	-
- taxation services provided by related practice of auditor	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report	188,356	80,818	-	-
- other services	-	3,367	-	-

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

24. Events subsequent to balance date

Events Subsequent to Balance Date

1. Since 30th June, 2008, the following wells have been drilled at the Naccowlah Block, ATP299P

Well	Drill Date	Status
Naccowlah South 17	25-July-2008	Plugged & Abandoned
Naccowlah South 18	5-August-2008	Cased & Suspended
Naccowlah West 22	22-August-2008	Cased & Suspended
Jackson 57	15-September-2008	Cased & Suspended
Jackson South 15	25-September-2008	Drilling Ahead

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

2. Merger with Great Artesian Oil and Gas Limited

- i. Summary of merger - 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. 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. Actual numbers of ordinary shares issued were: 551,695,509. The total cost of acquisition was \$27,033,080. The Company has incurred corporate advisory and other fees in relation to the merger with Great Artesian of \$110,000.
- ii. Purchase consideration (estimate) - 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).
- iii. Issue of options to directors, and employees – Under the terms of the merger all options in Great Artesian Oil and Gas Limited were cancelled and reissued in Drillsearch on the same basis as the shares, namely three Drillsearch options for each Great Artesian option held at the Record date. The exercise price of these options was one third the original Great Artesian exercise price.

3. Increase in interest in Tintaburra Oil field

On 3 July 2008, the company announced that an agreement had been reached between CPC Energy Limited and Drillsearch Energy Limited for the purchase of CPC Energy Limited's 1% interest in the Tintaburra block (ATP299P). CPC Energy Limited will receive 60 million Drillsearch Energy Limited shares as consideration at settlement.

4. Increase in Circumpacific Energy Corporation

On 23 July 2008, the Canadian TSX Venture Exchange agreed to the conversion of \$3,000,000 of debt owed to Drillsearch Energy (Canada) Incorporated, a wholly owned subsidiary of Drillsearch Energy Limited, into share capital by the issue of 24,000,000 common shares at CAD\$0.125 per share. As a result Drillsearch Energy Limited's consolidated holding in Circumpacific Energy Corporation increased from 62.7% to 79.5%.

5. Sale of Turtle Barnett Retention Leases

On 5 August 2008, DVM International announced that it had entered into an agreement to acquire a 100% working interest in retention leases WA 13R (Turtle Oil field) and NT/RL3 (Barnett Oil Field) for \$500,000 on completion of the 1st well, \$1,500,000 over the 1st 2 years of production and 2% ongoing royalty subject to certain conditions precedent being fulfilled.

6. Beach Petroleum Limited agree to drill a further 2 farm in wells in PEL106

On 10 September 2008, Beach Petroleum Limited announced their intention to drill two further exploratory wells in SA Cooper Basin permit PEL106 to earn their farm-in interest in the Beach block in that permit. The wells are anticipated to spud in October 2008.

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**24. Events subsequent to balance date (continued)****7. Trade receivables in Controlled entity Circumpacific Energy Corporation**

A portion of production of the controlled entity, Circumpacific Energy Corporation, was being marketed with SemCanada Crude Company (SemCanada). On 22 July 2008 SemGroup (the parent entity of SemCanada) filed a voluntary petition for reorganisation under Chapter 11 of the U.S. Bankruptcy Code in the District Court of Delaware, U.S.A. SemCanada has filed for investor protection under the Companies Creditor Arrangement Act (Canada). Circumpacific has exposure of approximately CAD \$200,000 for its June 2008 oil sales, which amount was written off at that date and a further CAD \$160,000 subsequent to 30 June 2008. The controlled entity has taken action to mitigate the situation by switching its marketing agent and consulting with legal counsel to formulate a plan to maximize recovery of monies owed for oil sales of approximately CAD\$360,000.

8. Issue of options to Alchemy Securities Pty Limited

On 22 September 2008, the company issued 1,500,000 unlisted options with a strike price of \$0.04 per option to Alchemy Securities Pty Limited a subsidiary of RFC Corporate Finance Limited (RFC) as part consideration for services provided by RFC in connection with the scheme of arrangement between Great Artesian Oil and Gas Limited and its shareholders. The exercise period is 4 years from 12 August 2008.

25. Segment reporting**Business Segments**

The Consolidated group is organised into the following business segments:

Oil and Gas

Comprises petroleum exploration and production and related facilities in Australia and Canada and exploration in Papua New Guinea

Primary Reporting - Business Segments 2008 - Current Period

	Oil & Gas \$	Other \$	Consolidation \$
Revenue	22,940,390	1,197,820	24,138,210
Segment result profit/(loss)	(15,470,597)	1,197,820	(14,272,777)
Net profit/(loss) after income tax expense	(15,261,516)	1,197,820	(14,063,696)
Segment assets	63,450,624	133,310	63,583,934
Segment liabilities	9,718,021	-	9,718,021
Acquisitions of property, plant and equipment and other non current segment assets	12,859,925	-	12,859,925
Depreciation and amortisation expenses	3,775,573	-	3,775,573
Exploration expenses written off	7,954,985	-	7,954,985
Other expense provisions	205,120	-	205,120

Secondary Reporting - Geographical Segments 2008 – Current Period

	Australia \$	Canada \$	Papua New Guinea \$	Consolidated \$
Revenue	15,735,909	8,402,301	-	24,138,210
Assets	51,984,249	11,202,613	397,072	63,583,934

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**25. Segment reporting (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

26. Related party transactions

<i>Consolidated Group</i>		<i>Parent Entity</i>	
2008	2007	2008	2007
\$	\$	\$	\$

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

a. Subsidiary Companies

The parent entity charged and recovered management fee from Circumpacific Energy Corporation.	195,298	22,705	195,298	22,705
The parent entity recovered joint venture expenses, overhead recovery fees and general expenses reimbursements from Circumpacific Energy Corporation.	114,156	-	114,156	-
The parent entity paid legal fee and exploration expenses on behalf of Drillsearch Energy PNG Limited.	25,001	1,880	25,001	1,880
The parent entity paid management expenses on behalf of Kun Yick International.	8,250	-	8,250	-
The parent entity paid exploration and other expenses on behalf of Drillsearch Energy (WA) Limited.	575,902	8,486	575,902	8,486
Circumpacific Energy Corporation paid interest on loan to Drillsearch Energy (Canada) Inc.	380,528	356,706	-	-
Circumpacific Energy Corporation JV billing, overhead recovery fees and general expenses from Drillsearch Energy (Canada) Inc.	124,208	51,809	-	-

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

26. Related party transactions (continued)

Circumpacific Energy Corporation received contribution to litigation settlement costs from the parent entity.	3,451	8,115	3,451	8,115
Circumpacific Energy Corporation received from Drillsearch Energy (Canada) Inc. contribution to litigation settlement costs.	84,632	86,952	-	-
b. Other Related Parties	-	-	-	-
c. Key Management Personnel				
Drillsearch Energy Limited appointed Carling Capital Partners Pty Ltd. as financial advisors to the company on a monthly fee of \$15,000. The non-executive director, Mr. M. Carling is a director of Carling Capital Partners Pty Ltd.	52,520	-	52,520	-
Management fees paid to Pemberly Resources Pty Ltd. and Casula & Kelso Trust, in which the non-executive director Mr. P Kelso (resigned 27 th November 07) was a director and has a beneficial interest.	289,917	445,550	289,917	445,550
Management fees paid to Oddlot Shares and Securities Pty Ltd in which the non-executive director Mr. P Simpson is a director and has a beneficial interest. (As noted in the key management personnel remuneration report in the directors report).	139,500	-	139,500	-
Share placement fee paid to Dixon Advisory Service, a company in which the non-executive director Mr. D. Dixon is a director.	57,554	-	57,554	-
Share placement and management fee paid to Carling Capital Partners Pty Ltd., a company controlled by Mr. M. Carling, a non-executive director of Drillsearch Energy Limited.	722,260	-	722,260	-

During the financial year P Simpson, P. F. Kelso, and G. C. Reveleigh were directors of the controlled entity, Circumpacific Energy Corporation. P. Simpson, William Johnson and P. F. Kelso were directors of the controlled entities, Drillsearch Energy (Canada) Inc., Transoceanic Securities Pty Limited, Drillsearch Energy (WA) Limited, Drillsearch Energy (PNG) Limited, P. Simpson and P. F. Kelso were directors of the controlled entity Frontier Bonaparte Pty Limited.

Apart from the details disclosed in this note and note 22, no Director has entered into a material contract with the parent entity or the consolidated group since the end of the previous financial year and there were no material contracts involving Directors' interest subsisting at year end. At balance date there are no contingent liabilities for termination benefits under service agreements with directors or persons involved in the management of the consolidated group.

Amounts payable to and receivable from Directors and their Director related entities at balance date are as follows:

	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current Receivables	-	-	-	-
Current Payable	-	-	-	-
- Oddlot Share and Securities Pty Ltd.	13,394	-	13,394	-

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

26. Related party transactions (continued)

Controlled Entities

Details of interests in wholly owned or controlled entities are set out in Note 21. Details of balances with these entities are set out below:

Drillsearch Energy (Canada) Inc.

At 30th June, 2008, this controlled entity owed the parent entity (head office) \$1,757,818 (2006: \$1,693,308). As at 30th June, 2008, the parent entity (Calgary branch) owed this controlled entity \$1,732,803. (2006: \$1,894,720). The amounts are non-interest bearing and at call.

Transoceanic Securities Pty Limited

At 30th June, 2008, the parent entity owed this controlled entity \$ 645,055 (2007: -\$513,985). The amount is non-interest bearing and at call.

Drillsearch Energy (PNG) Limited

At 30th June, 2008, this controlled entity owed the parent entity \$646,009 (2007: \$621,008). The amount is non-interest bearing and at call.

Drillsearch Energy (WA) Limited

At 30th June, 2008, this controlled entity owed the parent entity \$1,913,875 (2007: \$1,337,973). The amount is non-interest bearing and at call.

Kun Yick International Limited

At 30th June, 2008, the parent entity owned 100% of the capital of this subsidiary. As at 30th June, 2008, this controlled entity owed the parent entity \$397,891 (2007: \$390,891). The amount is non-interest bearing and at call.

Partly Owned Controlled Entities

Details of interests in partly owned entities are set out at Note 21. Details of dealings with these entities are set out below:

Circumpacific Energy Corporation

At 30th June, 2008, Circumpacific Energy Corporation

- a) directly owed the parent entity \$53,347 (2007: \$395,595). The amount is non-interest bearing and at call; and,
- b) indirectly owed the parent entity \$3,287,109 (2007: \$3,049,136) by virtue of it owing \$3,287,109 to Drillsearch Energy (Canada) Inc. a wholly owned subsidiary of Drillsearch Energy Limited. This amount bears interest at 12% per annum and is secured.

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**27. Earnings per share**

		Consolidated Group	
		2008	2007
		\$	\$
a.	Reconciliation of earnings to profit or loss		
	Profit	(13,467,387)	3,238,392
	Profit attributable to minority equity interest	596,309	205,790
	Redeemable and converting preference share dividends	-	-
	Earnings used to calculate basic EPS	(14,063,696)	3,032,602
	Dividends on converting preference shares	-	-
	Earnings used in the calculation of dilutive EPS	(14,063,696)	3,032,602
b.	Reconciliation of earnings to profit or loss from continuing operations		
	Profit from continuing operations	(13,467,387)	3,238,392
	Profit attributable to minority equity interest in respect of continuing operations	596,309	205,790
	Redeemable and converting preference share dividends	-	-
	Earnings used to calculate basic EPS from continuing operations	(14,063,696)	3,032,602
	Dividends on converting preference shares	-	-
	Earnings used in the calculation of dilutive EPS from continuing operations	(14,063,696)	3,032,602
c.	Reconciliation of earnings to profit or loss from discontinuing operations		
	Profit from discontinuing operations	-	-
	Profit attributable to minority equity interest	-	-
	Redeemable and converting preference share dividends	-	-
	Earnings used to calculate basic EPS from discontinuing operations	-	-
		No.	No.
d.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	664,095,834	403,494,696
	Weighted average number of options outstanding	-	-
	Weighted average number of converting preference shares on issue	-	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	664,095,834	403,494,696
e.	Diluted earnings per share is not reflected as there were no discontinuing operations during the financial year		

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

28. Cash flow information

	<i>Consolidated Group</i>		<i>Parent Entity</i>	
	2008	2007	2008	2007
	\$	\$	\$	\$
a) Reconciliation of Cash				
For the purposes of the Statement of Cash Flows, cash includes cash on hand, cash at banks and short term deposits at call. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash and cash equivalents	5			
	11,914,442	2,706,148	9,663,540	1,797,049
	11,914,442	2,706,148	9,663,540	1,797,049
b) Reconciliation of Net Profit/(Loss) After Income Tax to Net Cash Provided by/ (used in) Operating Activities				
Net profit/(loss) after income tax	(13,467,387)	3,191,681	(9,185,866)	2,471,383
Depreciation	313,548	476,114	237,569	234,066
Amortisation	3,462,026	2,750,511	1,371,559	1,501,070
Exploration expenses written off	7,386,524	9,438	7,386,524	9,438
Impairment charges	6,399,072	-	1,844,051	-
Bad debts written off	26,265	(27,221)	26,265	-
(Increment)/decrement on investments	-	20,000	-	20,000
Foreign exchange (gain)/loss	676,374	124,988	532,496	124,988
Movement in other provisions	(632,779)	116,578	(9,312)	116,578
(Profit)/loss on sale of fixed assets	(269,819)	139,643	11,394	101
Unrealised losses on shares	4,492	164	4,492	-
(Profit)/loss on sale of shares	246,368	204,177	246,368	204,177
(Increase)/decrease in receivables	(2,336,496)	(1,164,657)	(913,310)	(680,523)
(Increase)/decrease in other receivables	(15,328)	1,760	(15,328)	1,760
(Decrease)/increase in creditors	(1,110,613)	2,900,321	(1,359,577)	2,971,991
(Increase)/decrease in inventories	(381,026)	(648,749)	(381,026)	(648,749)
Increase in liabilities to be settled by issue of shares	-	25,885	-	-
Accrued Income/expenses with subsidiaries	(93,784)	-	(67,652)	-
Impairment of loans to subsidiaries	-	-	819,147	-
Expenses of capital nature	3,116,396	67,318	2,547,935	-
Increase/(decrease) in provision for restoration	230,093	80,652	-	-
(Increase)/decrease in deferred tax	2,566,973	-	-	-
Cash Flows from operating activities	6,120,898	8,268,603	3,095,729	6,326,280

c) Financing Facilities

All financing arrangements are disclosed at Note 12 – Financing Arrangements

29. Share-based payments

The following share-based payment arrangements existed at 30 June 2008:

No share options were granted to directors or to other parties during the financial year. There were no options on issue at the beginning of the financial year.

Notes to and forming part of the Financial Statements

for the year ended 30th June, 2008

30. Change in accounting policy

- a. The consolidated group has not changed its accounting policy for the financial year ending 30 June 2008.
- b. The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group	
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5	Non-current Assets Held for Sale and Discontinued Operations	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report.	1.1.2009	1.7.2009
	AASB 6	Exploration for and Evaluation of Mineral	no direct impact on recognition and measurement criteria amounts included in the financial report		
	AASB 102	Inventories			
	AASB 107	Cash Flow Statements			
	AASB 119	Employee Benefits			
	AASB 127	Consolidated and Separate Financial Statements			
	AASB 134	Interim Financial Reporting			
	AASB 136	Impairment of Assets			
	AASB 1023	General Insurance Contracts			
	AASB 1038	Life Insurance Contracts			
AASB 8 Operating Segments	AASB 114	Segment Reporting	As above	1.1.2009	1.7.2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1	First time adoption of AIFRS	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1.1.2009	1.7.2009
	AASB 101	Presentation of Financial Statements			
	AASB 107	Cash Flow Statements			
	AASB 111	Construction Contracts			
	AASB 116	Property, Plant and Equipment			
	AASB 138	Intangible Assets			

Notes to and forming part of the Financial Statementsfor the year ended 30th June, 2008**30. Change in accounting policy (continued)**

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1.1.2009	1.7.2009
AASB 101	AASB 101 Presentation of Financial Statements	As above	1.1.2009	1.7.2009

31. Economic dependency

A significant portion of the oil and gas revenue is obtained from a joint venture with Santos Ltd., the joint venture operator of permits ATP 259 and ATP 299.

32. Company details

The registered office of the company is:

Drillsearch Energy Limited

Level 8, 16 Spring Street, Sydney, NSW 2000

The principal places of business are:

- Level 8, 16 Spring Street, Sydney, NSW 2000
- **Drillsearch Energy Canada Inc.**
Suite 640 910-7th Avenue SW, Calgary, AB, T2P 3N8, Canada
- **Drillsearch Energy Limited – Calgary Branch Operations**
Suite 640 910-7th Avenue SW, Calgary, AB, T2P 3N8, Canada
- **Drillsearch Energy (PNG) Limited**
C/- Gadens Lawyers
Pacific Place Cnr. Musgrave St. and Champion Pde.
Port Moresby, NCD

Directors' Declaration

The Directors of Drillsearch Energy Limited declare that:

- a) the financial statements and notes set out on pages 17 to 58 are in accordance with the *Corporations Act 2001*, including:
 - i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and,
 - ii) giving a true and fair view of the company's and consolidated group's financial position as at 30th June, 2008 and of their performance, as represented by the results of their cash flows, for the financial year ended on that date; and
- c) at the date of this declaration, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declaration by the parent executive officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors



PETER P. SIMPSON
CHAIRMAN

Dated at Sydney this 30th of September, 2008



DFK - Richard Hill

CHARTERED ACCOUNTANTS &
BUSINESS ADVISERS

Director:
RICHARD L.S. HILL
B.Com, FCA

Associate Director:

DAVID G. SHARP
B.Com, A.C.A

Telephone: (617) 9221 0444
Facsimile: (617) 9221 0935
Email: r.hill@dfkrichardhill.com.au
www.dfkrichardhill.com.au

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2008 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm: DFK Richard Hill

Name of Partner: Richard Hill

Date: 30 September 2008

Address: Level 11, 32 Martin Place Sydney 2000

 Chartered Accountants
Liability limited by the Accountants
Scheme Approved under the Professional
Standards Act 1994 (NSW)

DFK - RICHARD HILL PTY LTD
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A member firm of

DFK
INTERNATIONAL
A worldwide association of independent
Accounting firms and business advisers



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CHARTERED ACCOUNTANTS &
BUSINESS ADVISERS

Director:
RICHARD L.S. HILL
R.Com. FCA

Associate Director:

DAVID G. SHARP
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRILLSEARCH ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Drillsearch Energy Limited (the company) and Drillsearch Energy Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 9 to 14 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Drillsearch Energy Limited on 30 September 2008, would be in the same terms if provided to the directors as at the date of this auditor's report.



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DFK - Richard Hill

CHARTERED ACCOUNTANTS &
BUSINESS ADVISERS

Director:
RICHARD L.S. HILL
B.Com, FCA

Associate Director:

DAVID G. SHARP
B.Com, A.C.A.

Telephone: (612) 9221 0444
Facsimile: (612) 9221 5935
Email: r.hill@dfkrichardhill.com.au
www.dfk-richardhill.com.au

Auditor's Opinion

In our opinion:

- a. the financial report of Drillsearch Energy Limited and Drillsearch Energy and Controlled Entities is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- c. the remuneration disclosures that are contained in pages 9 to 14 of the directors' report comply with Accounting Standard AASB 124.

Name of firm: DFK Richard Hill

Name of partner: Richard Hill

Address: Level 11, 32 Martin Place Sydney 2000

Dated this 30 day of September 2008



DFK - RICHARD HILL PTY LTD
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Additional Information for listed public companies

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1 Shareholding Distribution of Ordinary Shareholders

- a) Analysis of numbers of holders of fully paid ordinary shares as at 29th August, 2008:

<i>Category (size of holding)</i>	<i>No. of Shareholders</i>
1- 1,000	235
1,001 – 5,000	501
5,001 – 10,000	528
10,001 – 100,000	3,198
100,001 and over	<u>1,828</u>
	6,290

- b) There were 1,326 holders of less than a marketable parcel of 6,724,994 ordinary shares.
- c) The names of substantial shareholders as disclosed in substantial shareholders notices given to the company are:

Name	Number	%
Beach Petroleum Limited	87,000,000	5.22

- d) Voting Rights

The voting rights attaching to the Ordinary Shares are as follows:

On a show of hands every member present in person or by proxy shall have one (1) vote and upon a poll each share shall have one (1) vote.

- e) The total number of fully paid ordinary shares on issue at 22nd September, 2008, was 1,667,831,597.
- f) Twenty largest shareholders as at 22nd September, 2008

	Number of Ordinary Shares	% Held to Issued Capital
1 Citicorp Nominees Pty Ltd.	89,064,400	5.34
2 Beach Petroleum Limited	87,000,000	5.22
3 ANZ Nominees Limited (Cash Income A/c)	70,463,858	4.22
4 Mr. Daryl Albert Dixon and Mrs. Katherine Dixon (Dixon Family Super A/c)	50,412,405	3.02
5 Tower Holdings Limited	50,000,000	3.00
6 Great Artesian Oil and Gas Limited	47,910,488	2.87
7 HSBC Custody Nominees (Australia) Limited	39,739,575	2.38
8 Bell Potter Nominees Ltd (BB Nominees A/c)	28,800,000	1.73
9 Mr. Siew Wah Teh	23,036,231	1.38
10 Mr. Raymond Douglas Shaw	13,116,225	0.79
11 Mineral Ventures & Resources NL	12,532,967	0.75
12 UOB Kay Hian Private Limited (Clients A/C)	12,366,769	0.74
13 Nefco Nominees Pty Ltd.	11,667,618	0.70
14 Mr. Robert Pullan and Mrs. Carmel Pullan (Pullan Family Super Fund A/C)	10,500,000	0.63
15 Ms. Lee Kim Lian	10,000,000	0.60

	Number of Ordinary Shares	% Held to Issued Capital
16 Mr. Rajendran Ramasamy	10,000,000	0.60
17 Mr. Swee Pook The	9,200,000	0.55
18 CVL Resources (Barbados) Ltd.	9,126,486	0.55
19 Washington H Soul Pattinson & Co. Ltd.	8,700,000	0.52
20 Rita Jones and Raymond Shaw (Shaw Jones Super Fund A/c)	8,506,800	0.51
Total	602,143,822	36.10

2. The name of the Secretary to the Parent Entity is Ian Bucknell.

3. The address of the principal registered office in Australia is Level 8, 16 Spring Street, Sydney, NSW 2000. Telephone (02) 9241 4440.

4. Registers of securities are held at the following address: Computershare Investor Services Pty Limited, Level 3, 60 Carrington Street, Sydney, NSW 2000.

5. Other disclosures: NIL

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	11%
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	100%
WA.352P	2,025 sq. km	Drillsearch Energy Limited	100%
Northern Territory			
NT/RL.3	68 sq. km	Drillsearch Energy Limited	100%
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.

Abbreviations

AOF	Absolute Open Flow
AMI	area of mutual influence between partners whereby they agree to offer pro rate to the other partners any interests acquired within the area of mutual influence
bbls	barrels
bcf	billion cubic feet
BFT	before tax and capital
boe	barrels of oil equivalent
boepd	barrels of oil equivalent (per day)
bopd	barrels of oil per day
EOR	enhanced oil recovery
G&A	general and administrative
GORI	gross over-riding royalty interest
GORR	gross over-riding royalty
OOIP	original oil in place
P&NG	petroleum and natural gas leases
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mbo	thousand barrels of oil
MMbo	Million barrels of oil
MMboe	Million barrels of oil equivalent
MMcf	Million cubic feet
MMcfd	Million cubic feet per day
MMstb	Million standard stock barrels
Mstb	thousand standard stock barrels
NFE	near field exploration
NPV	net present value discounted over economic life of reserves
NGL	natural gas liquids
tcf	trillion cubic feet
PL	petroleum lease
psig	pounds per square inch
Sweet	lacking in Hydrogen Sulphide (H ₂ S)
Sour	contains Hydrogen Sulphide (H ₂ S) or other deleterious gas (e.g. CO ₂)
W.I.	working interest in joint venture/petroleum and natural gas leases
CAD	Canadian dollars
US\$	United States dollars