



Drillsearch Energy Limited

ASX RELEASE

Quarterly Report Period Ended 31st December, 2007

During the last quarter the Board commenced a strategic review of all of its resources, assets and operations. To assist with the review process the Board engaged Ferrier Hodgson to review a number of the company's' vulnerabilities in regard to its internal practices and procedures. Further the Board decided to fast track a number of the accounting recommendations by engaging William Buck to assist the Drillsearch management implement these recommendations.

The Board's strategic review is not yet complete.

The appointment of a Chief Executive Officer (CEO) and an experienced Oil and Gas Geologist to join the board as either a non-executive or executive Director are underway. Resource Recruitment has been engaged to shortlist the position of CEO. The appointment of a successful senior Oil and Gas Geologist is now under final consideration, and it is anticipated the successful Board candidate will commence either in February or March, 2008.

The Board has reviewed its debt exposure and with the view that the current level of debt is unacceptable, has determined to reduce the company's debt within the Meridian International \$27.5 Million debt facility. The sale of some of Drillsearch's non-core and non-performing assets here in Australia and Canada is underway to unlock and release further shareholder value. The Board has allocated some of the funds to be realised from this sale process to expediate a number of pre-existing projects and to allocate funds and resources to the Groups award of eight new blocks in SW Queensland.

The Board will be announcing future developments and actions out of the strategic review to shareholders as they occur as ASX releases.

THE 2nd QUARTERS HIGHLIGHTS

- Quarterly sales and revenue of 49,010 boe and A\$ 4,003,641
- Half year petroleum revenues reached A\$ 6,914,564
- All wells drilled this quarter, as part of the Cooper Oil Project, were successful and have been cased and suspended as future oil production wells
- Group award of preferred tenderer status to eight new exploration blocks in the Cooper and Eromanga Basins

1. Sales Volumes & Revenue

Drillsearch's petroleum sales volumes and revenue for the quarter ending 31st December, 2007 are set out below. Comparative figures with previous quarters are also summarised.

<i>Drillsearch Group</i>	<i>December 2007</i>	<i>September 2007</i>	<i>December 2006</i>
Sales Volumes (BOE)	49,010	32,421	47,876
Group Sales Revenue (A\$) Net of GST	4,003,641	2,910,293	3,349,383

The June Moonie to Brisbane Pipeline break adversely affected sales in the September quarter. Alternate oil transport arrangements were put in place and oil is now being trucked to the nearest offloading facilities. This has allowed oil production from the Tintaburra and Naccowlah blocks to resume at base production levels and as a consequence, sales for the December quarter were higher than for the previous quarter.

(For additional information: See ASX Announcement 21 January, 2008 – Record Tintaburra Production)

2. Development

Cooper Oil Project – Drilling Success Continues

Drillsearch continued its SW Queensland oil drilling campaign under the Cooper Oil Project during the quarter. Drillsearch participated in 12 wells at the Naccowlah Block, all of which were cased and suspended as future production wells. Drillsearch is in discussions with the operator in regard to the 2008 drilling and optimisation programs to be undertaken in both the Naccowlah and Tintaburra blocks. Further announcements will be made in regard to these blocks.

ATP-299-P Tintaburra Block

Drillsearch - 10% Working Interest

By the end of November 2007 the last nine of the Tintaburra wells drilled as part of the Cooper Oil Project were brought on line. In addition one well, which was drilled prior to the Cooper Oil Project, was also brought on line. This has seen Oil production from the Tintaburra block reach record heights.

The water injection program continued this quarter with all new Endeavour water injection wells commissioned and on line, and a new dual injector, Talgeberry 17, injecting water into both the Murta and Birkhead reservoir intervals.

ATP-259-P Naccowlah Block

Drillsearch - 2% Working Interest

Drilling in the Naccowlah Block has continued to provide Drillsearch with arguably its greatest success in 2008. A total of 12 wells were drilled in the Block all of which were cased and suspended as future oil production wells. The wells drilled in this quarter will result in new oil production from the Westbourne, Murta, basal Birkhead and Hutton reservoir formations. The casing Jackson 55 marked the end of the current phase of the Naccowlah Block drilling campaign. Drillsearch is still to finalise the details of the 2008 campaign, but it is anticipated to resume in May 2008.

Drilling Summary

Details of Drillsearch's' ongoing drilling results are progressively released to the ASX as Weekly Drilling Updates. These updates are a good monitor for Drillsearch's shareholders and analysts to follow the companies drilling program success.

A summary of the wells completed under the various programs from 30th September, 2007 to 31st December, 2007, are set out below:

Naccowlah – W.I. 2%

Well	Type	Status as at 31 st December, 2007
Jackson 47	Development	C&S Producer
Jackson 46	Development	C&S Producer
Tostada 2	Appraisal	C&S Producer
Jackson 51	Development	C&S Producer
Jackson 50	Development	C&S Producer
Jackson 49	Development	C&S Producer
Jackson 48	Development	C&S Producer
Jackson 56	Development	C&S Producer
Jackson 52	Development	C&S Producer
Jackson 53	Development	C&S Producer
Jackson 54	Development	C&S Producer
Jackson 55	Development	C&S Producer

** C&S Producer – cased and suspended pending completion as a oil production well

3. Exploration

ATP-783-P – Cooper Basin – SW Queensland

Drillsearch – 100% Working Interest

Santos has continued native title negotiations this quarter, and has also moved ahead with the planning of approximately 200 square kilometre 3D seismic survey. This survey will be used by Santos to earn a 30% participating interest and Operatorship in the permit and will focus on locating future exploration wells. The seismic survey is scheduled for mid-2008.

Acreage Award – Cooper/Eromanga Basin – SW Queensland

Drillsearch Group – 100% Working Interest

Drillsearch Group, which includes Drillsearch Energy Limited and its 62% held Canadian subsidiary Circumpacific Energy Corporation (TSX: CER), were notified by the Queensland Government that the Group has been granted preferred tenderer status over eight exploration blocks in the Cooper and Eromanga Basins in southwest Queensland. Prior to the award Drillsearch held or was a participant in a total of 7,095 sq km of exploration and production permits in the Cooper and Eromanga Basins. The new acreage will expand Drillsearch Group's holding to 22,000 sq km.

(For additional information: See ASX Announcement 8 November, 2007 – Major Petroleum Land Acquisition)

ATP-823-P – Surat Basin – East Queensland

Drillsearch – 100% Working Interest – Operator

Drillsearch has continued its compilation of the seismic database and geoscientific studies.

Pickanjinie No. 10 Well - PL 5, Queensland

Drillsearch – 75% Working Interest in the Well

The well continues to produce sales gas.

WA-318-P – Southern Bonaparte Gulf, Offshore WA
Drillsearch – 100% Working Interest – Operator

Additional exploration in the permit is being planned with ExxonMobil and Drillsearch preparing to acquire 2D seismic data in the block. This seismic acquisition is part of the WA-318-P required work program and will be aimed at filling in gaps in the current seismic data set and will provide additional data for forward exploration within the permit.

WA-352-P - Carnarvon Basin, Offshore WA
Drillsearch – 100% Working Interest – Operator

Drillsearch continues its interpretation of the reprocessed 2D seismic data, prior to moving forward with new seismic acquisition.

PPL-224 – Offshore Papua New Guinea
Drillsearch – 5% Working Interest

The operator obtained an extension of the time within which a decision could be made to drill a test of the 1.4 Tcf Flinders Prospect.

4. Appraisal

Turtle/Barnett, WA-13-R – NT/RL3 – Southern Bonaparte Gulf, Offshore WA
Drillsearch – 100% Working Interest – Operator

During the quarter Drillsearch continued farm out negotiations, reprocessing of the vintage seismic data covering the Turtle/Barnett project area, and commissioned an engineering study to be completed in the first quarter of 2008 to identify cost effective development options of the Turtle Barnett Project, including the possible re-entry of Barnett-2.

(See ASX Announcement 18 January, 2008 – Rights Issue and Appendix 3B)

5. Operations – Canada

Operations in Canada are conducted by Circumpacific Energy Corporation, a 62% owned Canadian subsidiary of Drillsearch Energy Limited.

Gross petroleum revenue for the quarter ended 31st December, 2007, was A\$ 1,149,433.

No additional drilling or seismic surveys were undertaken during the quarter. Drillsearch is currently reviewing its Canadian assets and the identified opportunities for 2008 in Canada and will make further ASX announcements on these once they have been committed to and/or confirmed.

There were changes to the Board of Circumpacific Energy Corporation, at the Annual General Meeting held in November 2007. Mr. Malcolm Fraser was re-elected as Chairman and Mr. Chuck Ross was re-appointed President, and Mr. Malcolm Lennox was returned as an independent director. Mr. Peter Simpson, the Executive Chairman of Drillsearch, was appointed Chief Executive Officer. In addition, three new independent non-executive directors: Mr. Christopher Ryan (with oil and gas experience), Mr. Paul Johns and Mr. Roger Tidmarsh (with commercial experience), joined the board. Mr. Len Guenther was appointed Company Secretary. This completes the restructure of the Canadian Board.

6. **Petroleum Sales, Revenue and Capital Expenditure Summary – Quarter Ended 31st December, 2007**

Sales Volume– BOE (see NOTE 1)

	Sales Volume 2 nd Quarter Ended 31 st December, 2007	Sales Volume 1 st Quarter Ended 30 th September, 2007
Drillsearch Energy Limited – Australia	26,793	9,041
Drillsearch Energy Limited – Canada	22,217	23,380
Group Total	49,010	32,421

Sales Revenue - A\$

	Revenue 2 nd Quarter Ended 31 st December, 2007 (Net of GST)	Revenue 1 st Quarter Ended 30 th September, 2007 (Net of GST)
Drillsearch Energy Limited – Australia	2,854,208	815,827
Drillsearch Energy Limited – Canada	1,149,433	2,094,467
Group Total	4,003,641	2,910,923

Capital Expenditures – A\$

	Capital Expenditures 2 nd Quarter Ended 31 st December, 2007 (Net of GST)	Capital Expenditures 1 st Quarter Ended 30 th September, 2007 (Net of GST)
Drillsearch Energy Limited – Australia	5,317,660	4,502,906
Drillsearch Energy Limited – Canada	185,360	513,668
Total Capital Expenditures	5,503,020	5,016,574

Exchange Rate -- \$1 Australian = \$.9771 Canadian

NOTE 1: Low sales volumes in 1st Quarter reflect the Moonie to Brisbane Pipeline incident; alternate oil transport arrangements have occurred and are reflected in the 2nd quarter sales volume figures. The 2nd quarter sales figures also reflect record oil production and oil prices.

7. Subsequent Events

New SQ Queensland Acreage

An understanding based upon a Heads of Agreement between the companies will see Drillsearch and Circumpacific begin to work in these blocks on a 50:50 participating interest basis, with Drillsearch managing the technical evaluation for a 10% management fee on all blocks.

(See ASX Announcement 18 January, 2008 – Rights Issue and Appendix 3B)

Rights Issue

Drillsearch announced a non-renounceable rights issue of one (1) share for every one (1) share to all shareholders at an issue price of 4 cents (\$0.04) per new share to raise up to approximately \$22 million. The Closing Date for this rights issue is 18 February, 2008 and the Allotment of Shares will occur on 22 February, 2008.

(For additional information: See ASX Announcement 18 January, 2008 – Rights Issue and Appendix 3B)

Bounty Oil and Gas NL Shares

Drillsearch finalised the disposal of all of its Bounty Shares of Friday, 25th January, 2008. It involved the sale of Drillsearch's 13.9% stake (26.4 Million Shares) in Bounty to GH Corporate Services Pty Limited.

The proceeds of this sale are being applied to reduce the \$27.5 Million debt facility with Meridian International that currently stands at approximately \$16.5 Million.

(For additional information: See ASX Announcement 29 January, 2008 – Bounty Oil & Gas shares sold)

Yours faithfully,

DRILLSEARCH ENERGY LIMITED

**PETER SIMPSON
CHAIRMAN**

Abbreviations

BOE	Barrel of oil equivalent
Tcf	Trillion cubic feet of gas
sq km	square kilometres