A tall, yellow drilling rig structure is silhouetted against a sunset sky. The rig is illuminated from below, creating a strong contrast with the dark sky. The sun is low on the horizon, casting a warm, orange glow. The rig's structure is complex, with many levels and platforms. The overall scene is industrial and dramatic.

Drillsearch Energy Limited
Quarterly Report

December 2009

Drillsearch

Drillsearch Energy Limited

Quarterly Report December 2009

Highlights

- Revenue of \$1.72m for the quarter, down 30% on the previous quarter.
- Production of 42,124 bbls, down 9% on the previous quarter.
- Cash position remains strong at \$12.9m.
- Awarded a major new Cooper Basin Exploration Permit (PELA 513).
- Independent technical review confirms significant unconventional gas prospective resource potential in the Western Cooper Basin.
- Multiple drilling successes achieved at the Tintaburra Block.
- Production facilities have been constructed for Chiton-1 and production is expected to commence in early 2010.
- Successful resolution of issues with Circumpacific.
- Management team strengthened with the appointment of John Whaley as Chief Commercial Officer.
- Appointment of Chief Technical Officer imminent - building of stronger internal technical team.
- Board strengthened with the appointment of two additional Non-Executive Directors in Fiona Robertson and Ross Wecker.

Description	Units	Year-to-date Dec 2009	September 2009 Quarter	December 2009 Quarter	Quarter Change	Quarter Change %
Oil & gas production						
Australia	boe	56,684	30,517	26,167	-4,350	-14%
Canada	boe	31,657	15,700	15,957	257	2%
Total Production	boe	88,341	46,217	42,124	-4,093	-9%
Oil & gas revenues						
Australia	A\$	2,907,335	1,562,446	1,344,890	-217,556	-14%
Canada	A\$	1,289,420	911,265	378,155	-533,110	-59%
Total Sales Revenue	A\$	4,196,755	2,473,711	1,723,045	-750,666	-30%
Production expenditure						
Australia	A\$	1,298,701	596,367	702,334	105,967	18%
Canada	A\$	789,599	425,345	364,254	-61,091	-14%
Total Production Expenditure	A\$	2,088,300	1,021,712	1,066,588	44,877	4%
Exploration & development expenditure						
Australia	A\$	5,664,194	2,282,268	3,381,926	1,099,658	
Canada	A\$	81,629	317,586	81,629	-235,957	
Total Expl & Dev Expenditure	A\$	5,745,823	2,599,854	3,463,555	863,701	
Financials						
Cash & Cash Equivalents	A\$	12,907,195	13,281,369	12,907,195	-374,173	-3%
Debt	A\$	None	None	None	-	-
Hedging	A\$	None	None	None	-	-

Production and Revenue

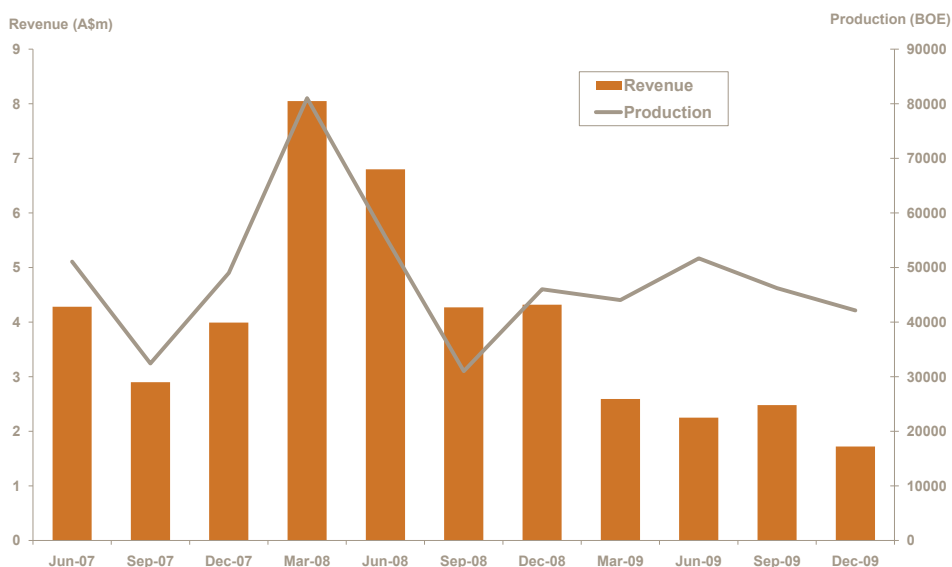
Australian oil production for the December quarter was 26,167 bbls, which was 14% below the prior quarter. This was primarily due to the ongoing decline of existing fields. However, in future periods this trend should reverse as first oil is expected from the Chiton oil field in early 2010 which is anticipated to have positive material impact on the Company's oil production in the near term.

Canadian oil and gas production for the December quarter from Circumpacific was 15,957 boe, which was 2% higher than in the September quarter.

Australian revenues for the December quarter were \$1.34m, which was 14% below the previous quarter. Canadian revenues were \$0.38m, which was 59% lower than in the previous quarter. Drillsearch's Australian operations realised a December quarterly average oil price of \$93.09/bbl. This compares with a price of \$81.69/bbl in the previous quarter.

Despite the favourable oil price movement over the December quarter, Australian revenue declined due to a temporary inventory build up in the Jackson-Moonie pipeline. This should be reversed during the first half of 2010 as the Jackson-Moonie Pipeline is decommissioned.

Revenue and Production History



Source: Drillsearch Energy Ltd

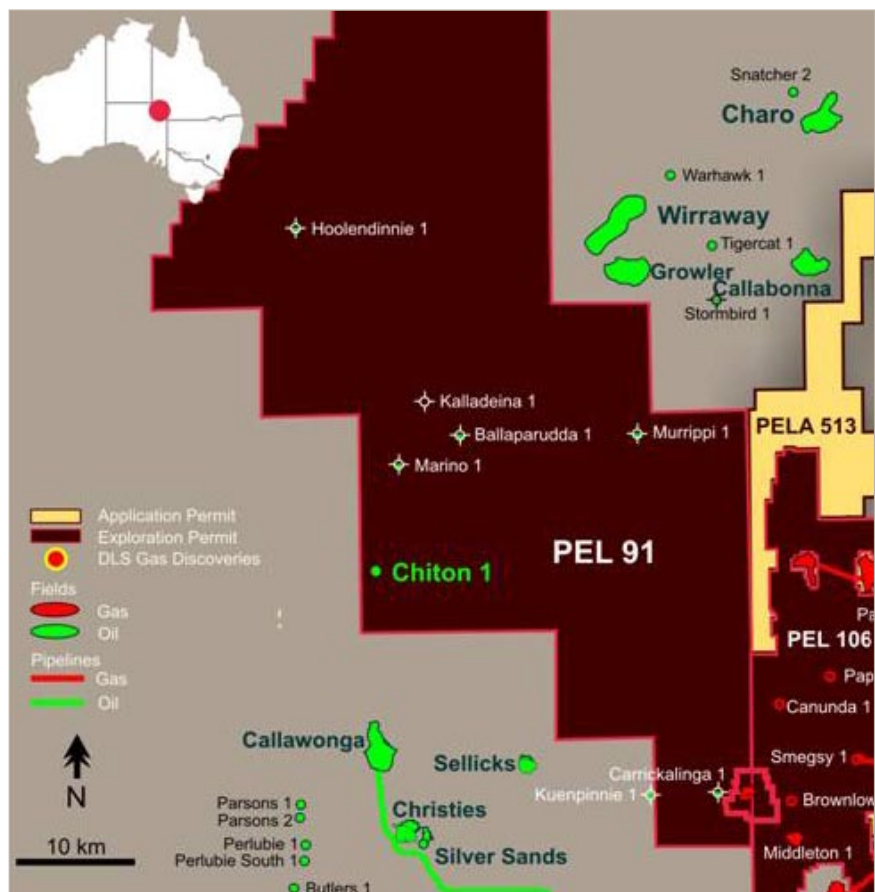
Development and Exploration

Development of Chiton Oil Discovery (PEL 91) (60% Drillsearch)

Chiton Oil production commenced on 22nd January 2010.

Following the discovery of the Chiton Oil Field in August 2009, the Chiton-1 discovery well was completed for production. After perforation of the Namur pay zone in Chiton-1, an 80 minute flow test yielded an average rate of approximately 2,430 barrels of oil per day.

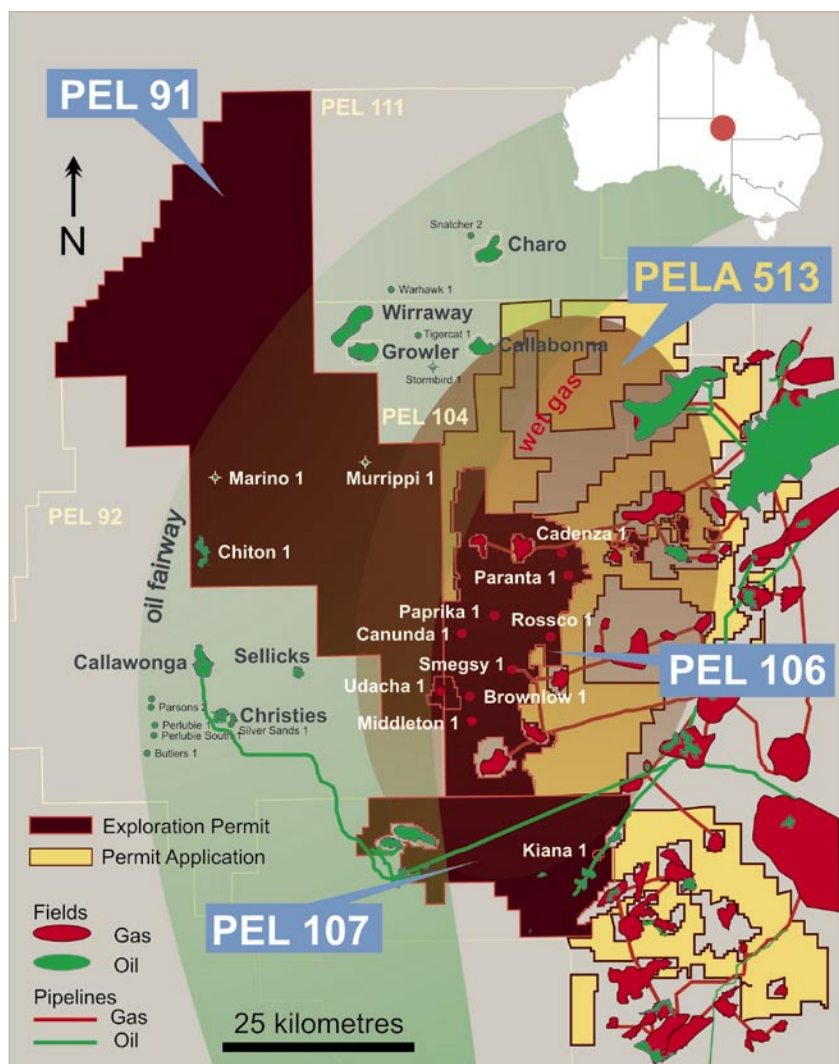
Chiton-1 is the first commercial oil discovery in PEL 91. Production facilities have been completed and production commenced on 22nd January 2010. Production at Chiton-1 will commence via the PEL 92 facilities upon the finalisation of commercial arrangements between the PEL 91 and PEL 92 joint ventures.



Major new Cooper Basin Exploration Permit

On 9 December 2009, Drillsearch Energy announced that it had been awarded a major new exploration permit by the Government of South Australia, being PELA 513 (previously referred to as CO-2009 Block B). PELA 513 is an excellent strategic fit with Drillsearch's existing position in the Western Cooper Basin. It covers portions of the Western Flank Oil, the Wet Gas and the Unconventional Gas play fairways that management have outlined as being the cornerstone strategic opportunities that Drillsearch is built around.

"New major exploration permit is an excellent fit with our existing position in the Western Cooper Basin".

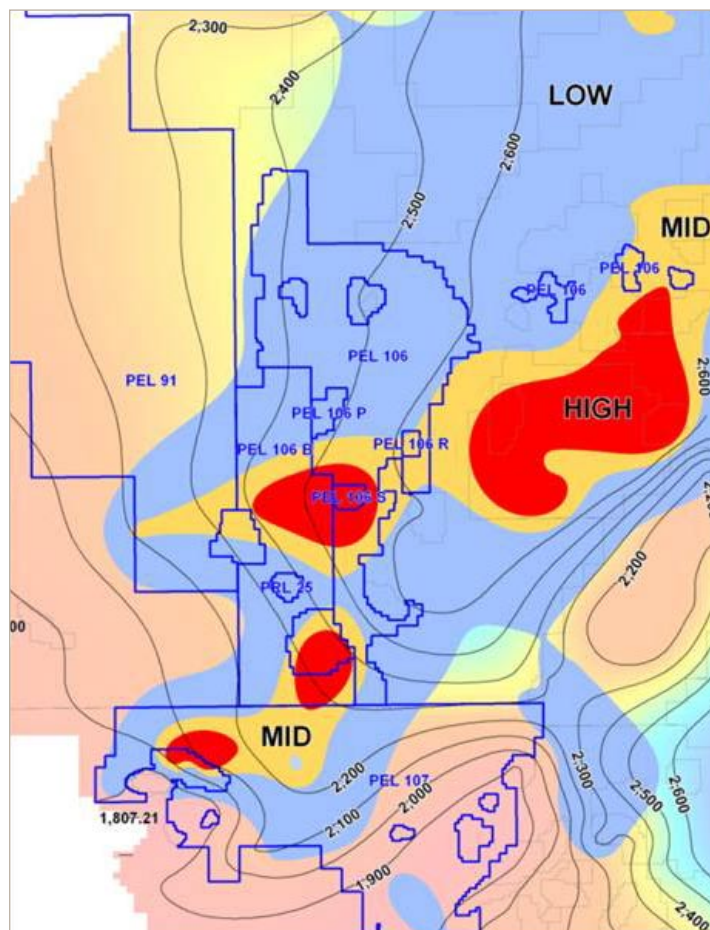


Confirmation of Significant Western Cooper Basin Prospective Resource Potential

During the December 2009 quarter, Drillsearch received the results of an independent review of the resource potential of the Western Cooper Unconventional Gas Project. The review, which was conducted by MBA Petroleum Consultants, estimates gross Deep Coal Seam Gas-in-Place of 10.9 TCF and confirms Gross Prospective Resource potential of 2.7 to 5.4 TCF. It should be noted that these figures do not include the additional impact of the recently awarded PELA 513 permit.

Regardless, these results are very encouraging for Drillsearch. To put the scale of this in perspective, around 2 TCF is sufficient to supply one 1.5m tpa LNG plant for 20 years.

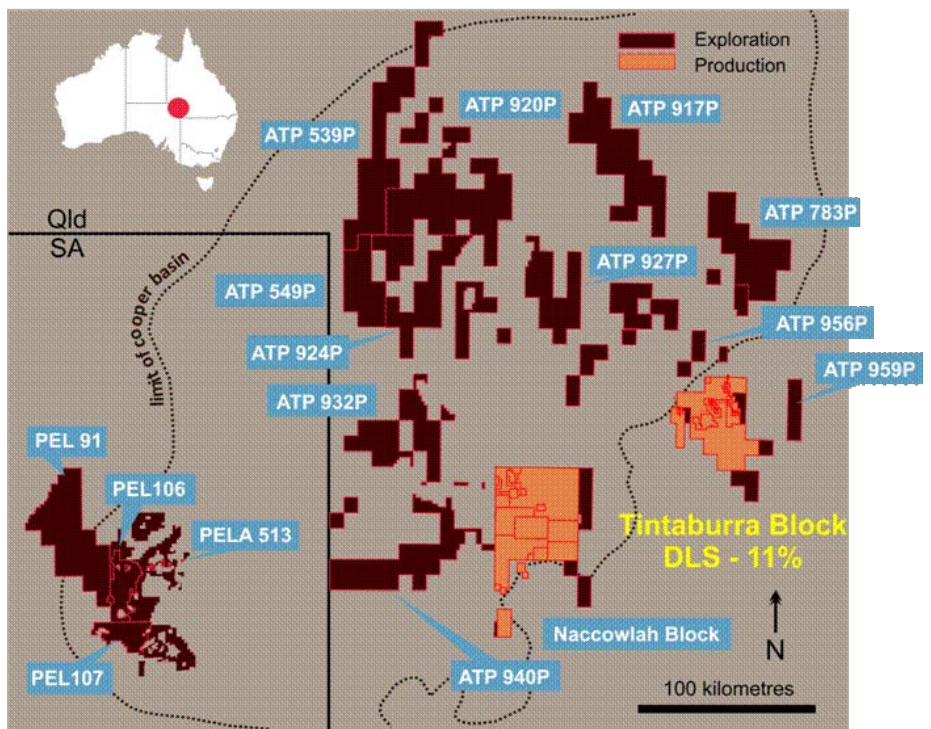
"Potential resources of the Western Cooper Unconventional Gas Project are very encouraging".



Multiple Drilling Successes at the Tintaburra Block

Drillsearch achieved drilling success at both the Ipundu-16 and Ipundu North-13 development wells in the Tintaburra Block.

In November 2009, Drillsearch achieved drilling success at both the Ipundu-16 and Ipundu North-13 development wells in the Tintaburra Block. The Tintaburra Block is a joint venture of Santos Ltd (89%) and Drillsearch Energy (11%). Both of these wells have been cased and suspended as future oil producers. Further testing is planned and updates will be provided along with recoverable oil estimates as these become available.



Financial Position

Drillsearch Energy remains in a very sound financial position.

Drillsearch Energy remains in a very sound financial position. Its cash balance at the end of December 2009 was \$12.91m. Actual cash payments for exploration, appraisal and development expenditure for the December quarter were \$3.55m, compared to \$2.60m in the previous quarter. Cash reserves were increased by \$4.4m as a result of the share purchase plan. Drillsearch Energy has adequate cash resources to meet its funding requirements for all of its existing capital commitments.

Corporate

Board Appointments

On 6 October 2009, Drillsearch's Chairman Jim McKerlie announced the appointment of two additional Non-Executive Directors, Fiona Robertson and Ross Wecker, to the Company's Board. The appointments support the Company's strategic objective of being a major player in the Cooper Basin where it has substantial opportunities and puts in place a strong, experienced and independent Board that will oversee the Company's growth objectives.



Fiona Robertson



Ross Wecker

Management Changes

On 21 October 2009 the Board announced the appointment of Mr. John Whaley as Chief Commercial Officer. John has responsibility for the development and commercialisation of Drillsearch's assets together with managing acquisitions and divestments.

The Board also began a process of recruiting a new Chief Technical Officer who will take responsibility over the Company's exploration acreage and technical team. Significant progress has been made on this front with an announcement imminent.



John Whaley

Notice of ceasing to be a substantial Shareholder

Having spent much of 2009 successfully defending itself against the hostile takeover bid launched by Beach Petroleum on 5 May 2009, the Company was advised by Beach that it ceased to be a substantial shareholder of the Company on 12 November 2009. Beach no longer has any shareholding in Drillsearch.

Capital Raising

On 18 September 2009, the company successfully completed an equity placement raising \$9.58 million at \$0.05 per share to new institutional and sophisticated investors. In parallel with the equity placement, the company completed a share purchase plan offering shares to existing shareholders at \$0.05 per share (the same price as the equity placement). The share purchase plan closed on 30 October 2009 having raised \$4.4 million. These funds have to date been principally applied to funding the initial development of the Chiton Oil discovery.

Portfolio Rationalisation

The company has engaged RFC Corporate Finance and RISC Pty Ltd to assist it with the evaluation, sale and/or farmout process for identified non-core assets. The recently announced surrender on 20 January 2010 of Petroleum Exploration Permit WA-352-P to the WA Government signals the Company's desire to deliver on its promise to shareholders to rationalise its portfolio and to maintain its focus on the Cooper Basin. No asset is sacred. The Company intends to continue to bring to bear a rigorous and ruthless approach to the rationalisation of its portfolio of assets.

Canada

The company was required to requisition a shareholders' meeting to vote on the election of new directors in its 79.5% owned TSXV-listed subsidiary, Circumpacific Energy Corporation (Circumpacific) during the December quarter. We were pleased to announce at the Drillsearch Annual General Meeting the successful appointment of Drillsearch nominees to the Circumpacific board and the resolution of outstanding issues between the two companies.

Exciting Prospects Lie Ahead

New Oil Business

The Company will advance its exploration efforts in the Western Flank Oil Fairway in PEL 91 through accelerating drilling activity and expanding the existing 3D seismic coverage. The Company is currently evaluating 4-5 high potential new drilling locations in PEL 91 in the vicinity of the Chiton Oil discovery and Marino Birkhead oil show. The area is covered by the existing 3D Modiolus Seismic survey. Further announcements will be made once the final drilling locations for a multi-well drilling campaign are agreed with the operator, Beach Energy. It is anticipated that these wells are likely to be drilled in the next six months, subject to rig availability. Any further drilling success in PEL 91 is expected to result in a short development time to first production given infrastructure facilities will already be in place.

Additionally, the Company has already committed to expanding the seismic coverage in PEL 91 with an additional 400 km² of 3D seismic - the Aquillus 3D seismic survey. The new survey will cover over 20 Namur sandstone oil prospects previously identified as well as potential prospective Birkhead formation areas immediately south of the PEL114/PEL104 Wirraway, Growler and Snatcher oil discoveries. It is anticipated that the Aquillus 3D seismic survey will commence in March 2010.

Wet Gas Business

Following the announcement in June 2009 of the Contingent Resources for the Western Cooper Wet Gas Project in PEL 106, the Company announced on 27 October 2009 a further 21 exploration prospects in PEL 106 with Best Estimate Prospective Resource exploration potential of over 200 BCF sales gas and 8 mmbbls of condensate independently verified by Gaffney, Cline & Associates Pty Ltd (the "GCA Report").

Extended production testing of the Brownlow and Canunda Wet Gas discoveries (DLS 50%) will take place shortly. Previously, on short term testing, the Brownlow Gas discovery flowed at 12 mmscf/day and the Canunda Gas discovery flowed at 9 mmscf/day. The purpose of the extended production testing is to establish the overall deliverability of these two fields over a long term basis. This will give the Company greater confidence with regard to supply to underpin a gas supply project or contract.

With the support of Gaffney, Cline & Associates, the Company is undertaking a screening study of independent development options for commercialising the Company's multiple Wet Gas discoveries in PEL 106. The object of the study is to assist the Company in defining the most attractive and feasible options for the development of these wet gas discoveries. The Company anticipates that it will have the initial results from the screening study by the end of the March 2010.

The Company is also preparing new drilling locations in PEL 106 targeting six of the 21 prospects covered by the GCA Report. Subject to joint venture approval and the results of the GCA screening study, it is the Company's intention to accelerate the exploration and appraisal drilling activity in PEL 106 and the adjacent PEL 107 block as well as the PELA 513 award block.

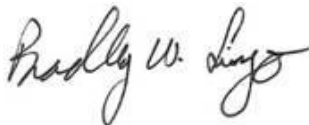
The Company has engaged Advanced Well Technologies to assist it in the Western Cooper Basin Wet Gas Project field appraisal and development planning.

Unconventional Gas Business

With the assistance of MBA Petroleum Consultants, the Company is currently continuing its unconventional Prospective Resource assessment for the Western Cooper Basin Project Area – PELs 106, 107, 91 and the newly acquired PELA 513. The Company anticipates that updated Prospective Resource estimates will be completed in early February covering additional unconventional gas formations in the project area as well as the additional permit area covered by PELA 513.

Following the completion of this Prospective Resource assessment by MBA Petroleum, the Company anticipates initiating a field exploration and appraisal programme to confirm the Prospective Resource potential. The Company has engaged Advanced Well Technologies to assist with the preliminary planning of this work.

For further information please contact:



Brad Lingo
Managing Director
+612 9241 4440
Or visit the website www.drillsearch.com.au