



DRILLSEARCH ENERGY LIMITED AND CONTROLLED ENTITIES

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

FINANCIAL STATEMENTS

30th June, 2006

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DIRECTORS' REPORT

The Directors present their report on the results of Drillsearch Energy Limited ("Drillsearch") and of the consolidated entity (being Drillsearch Energy Limited and controlled entities) for the year ended 30th June, 2006 and the state of affairs of the Company and the consolidated entity at that date.

1 Directors

The Directors of the chief entity in office during the whole of the financial year and up to the date of this report are:

J. M. Armstrong (Chairman)
P. F. Kelso (Managing Director)
G. C. Reveleigh (Director)

2 Principal Activities

The principal activities of the consolidated entity constituted by Drillsearch and the entities it controlled during the year were that of exploration for development, production and marketing of oil and gas. During the year there were no significant changes in the nature of the activities of the corporations in the consolidated entity.

3 Consolidated Results

The consolidated net profit after income tax for the year ended 30th June, 2006, attributable to the members of Drillsearch was \$3,635,904 (2005: \$1,708,322).

	2006	2005
	\$	\$
Profit/(loss) from ordinary activities before income tax	3,975,374	1,419,249
Income tax recovery attributable to profit from ordinary activities	3,707	18,030
Net profit/(loss)	3,979,081	1,437,279
Outside Equity Interests in net profit/(loss)	343,177	(271,043)
Net profit/(loss) after income tax attributable to Members of the chief entity	3,635,904	1,708,322

4 Earnings Per Share

	2006	2005
	<i>cents</i>	<i>cents</i>
Basic earnings per share	0.01	0.0
Diluted earnings per share	0.01	0.0

5 Dividends

No dividends have been paid during the year ended 30th June, 2006 and no dividend is recommended.

6 Review of Operations

Introduction

A summary of consolidated revenues and results of significant industry segments is set out in Note 28 to the Financial Statements.

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

Australia

- Drillsearch completed capital raisings during the year with the issue of 71,837,721 fully paid ordinary shares to raise \$6,017,028, before expenses. It incurred fees and commissions in connection with the capital raising totalling \$244,609. Further details of share issues are set out in paragraph 11 of this report.

- The chief entity continued producing oil from its Naccowlah and Tintaburra joint venture interests in south/west Queensland. During the year 74,184 bbls of oil were sold from these properties (2005: 62,156 bbls).

Papua New Guinea

- At 30th June, 2006, a controlled entity, Drillsearch Energy (PNG) Limited, held a 5% interest in PPL.244 in the southern Gulf of Papua. PPL.244 contains a major gas/condensate prospect named Flinders. The operator of PPL.244 is Talisman Energy.

Canada

- A 62.7% owned Canadian listed controlled entity of Drillsearch Energy Limited, Circumpacific Energy Corporation ("CER") continued oil and gas production in Canada and reported a profit after tax for the year of A.\$917,005 (2005: Loss A.\$487,435).

7 State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year ended 30th June, 2006, not otherwise disclosed in this report or the consolidated accounts.

8 Events Subsequent to Balance Date

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

1. Since 30th June, 2006, the following wells have been drilled at Tintaburra Block, ATP.299P:

WELL	DRILL DATE	STATUS
Gimboola 4a	1/07/2006	On-line Oil Producer
Bilberry 1	1/07/2006	Plugged & Abandoned
Endeavour 9	4/07/2006	Cased & Suspended Oil Producer
Loganberry 1	6/07/2006	Plugged & Abandoned
Talgeberry 12	13/07/2006	Cased & Suspended Oil Producer
Endeavour 7	15/07/2006	Cased & Suspended Oil Producer
Talgeberry 13	19/07/2006	On-line Oil Producer
Minni-Ritchi 1	20/07/2006	Cased & Suspended Oil Producer
Endeavour 6	23/07/2006	Cased & Suspended Oil Producer
Talgeberry 9	23/07/2006	Cased & Suspended Oil Producer
Endeavour 10	29/07/2006	Cased & Suspended Water Injector
Talgeberry 10	30/07/2006	On-line Oil Producer
Whynott 1	31/07/2006	Plugged & Abandoned
Talgeberry 11	5/08/2006	Cased & Suspended Oil Producer
Reliance 1	8/08/2006	Cased & Suspended Water Injector
Talgeberry 14	11/08/2006	Cased & Suspended Oil Producer
Cranstoun 3	16/08/2006	Cased & Suspended Oil Producer
Cranberry 1	17/08/2006	Plugged & Abandoned
Cranstoun 4	22/08/2006	Cased & Suspended Oil Producer
Talgeberry 15	22/08/2006	Cased & Suspended Water Injector
Kooyong 1	29/08/2006	Cased & Suspended Oil Producer
Talgeberry 16	3/09/2006	Plugged & Abandoned
Endeavour 18	5/09/2006	Cased & Suspended Oil Producer
Mulberry 25	10/09/2006	Currently Drilling

NOTE:

Cased & Suspended Oil Producer means cased and suspended as a future oil production well
Cased & Suspended Water Injector means cased and suspended as a future water injection well

2. In August, 2006, the parent entity committed to an additional 20 well drilling programme at Tintaburra at a cost of \$5.45 million over an 8 month period.
3. On 1st September, 2006, the chief entity signed a term sheet for an \$18 million facility to fund its share of the Tintaburra Oil Development Project. It is anticipated that the final loan documentation will be executed by the end of September, 2006, with draw downs against the facility occurring approximately seven (7) business days later.

Except for the above items, no other matter or circumstance has arisen since 30th June, 2006, that has significantly affected or may significantly affect:

- a) the consolidated entity's operations in future financial years; or,
- b) the results of those operations in future financial years; or
- c) the consolidated entity's state of affairs in future years.

9 Likely Developments

Likely developments in the operations of the consolidated entity constituted by Drillsearch and the entities it controls include:

- a) Production and development of oil and natural gas and exploration for oil and gas will continue, consistent with the income and available cash reserves of the consolidated entity.
- b) Those operations will be conducted principally in Canada and Australia.

10 Environmental Regulations

The chief 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 chief entity and it complies with all relevant environmental legislation. Its subsidiary, CER, complies with all relevant environmental regulations in the Provinces of British Columbia, Alberta and Saskatchewan, Canada.

11 Share Issues

During the financial year, the following allotments of fully paid ordinary shares were made:

<i>Date</i>	<i>Fully Paid Shares</i>	<i>Issue Price</i>	<i>Subscription Amount</i>
22.12.05 Shareholder share purchase plan	22,118,328	\$0.07	1,548,283
22.12.05 Allotment of remuneration	300,000	\$0.07	21,000
28.4.06 Placement	<u>49,419,393</u>	<u>\$0.09</u>	<u>4,447,745</u>
	<u>71,837,721</u>		<u>6,017,028</u>

At the date of this report the chief entity has on issue 403,393,696 fully paid ordinary shares.

As at the date of this report the chief entity has on issue Nil options over un-issued ordinary shares.

12 Share Options Granted to Directors and the Most Highly Remunerated Officers

No options over un-issued ordinary shares of Drillsearch Energy Limited have been granted during or since the end of the financial year to any of the Directors or the 5 most highly remunerated officers of the company and consolidated entity as part of their remuneration.

13 Information on Directors and the Company Secretary

J. M. Armstrong - Chairman

John Armstrong has had over 30 years experience as a Director and financial adviser to public and private companies in the resources industry in Australia and overseas. His experience in the oil and the gas industry includes 9 years experience with the Standard Oil Company (Amoco) in United States, Australia and Japan. He is a graduate in Chemical Engineering from the University of Illinois (Summa cum Laude) and has an MBA from Harvard University. Mr. Armstrong is Chairman

of Pegmont Mines N.L. (Director since 1997), a member of the Securities Institute of Australia and the Australian Institute of Company Directors.

P. F. Kelso – Managing Director

Philip Kelso is a graduate in geology and law with over 30 years experience in the resources industry throughout Australia. As a lawyer he has expertise in litigation, resource and environmental law. He has had considerable international petroleum experience with emphasis on Australia, South East Asia and Canada. Mr. Kelso was a Director and then later Chairman of Dome Resources N.L. until May, 2000. He is a Director and President of Circumpacific Energy Corporation. He is a Member of both the Australasian Institute of Mining and Metallurgy and the Petroleum Exploration Society of Australia.

G. C. Reveleigh - Director

Graham Reveleigh is a graduate in geology and has nearly 40 years experience in the resources industry both in Australia and overseas. Early in his career, he worked in the oil industry, then spent most of his career in exploration, mine management and construction in the mineral industry. Mr. Reveleigh is a director of Circumpacific Energy Corporation and an Australian listed company, Hill End Gold Limited. He is a Member of the Australasian Institute of Mining and Metallurgy, and is a Chartered Professional (Management).

M. L. Hutt, CA FCIS - Company Secretary

Michael Hutt was appointed to the position of Company Secretary in 1992. Since 1978, Mr. Hutt has been Company Secretary for a variety of companies both listed and private and has been involved in the management of resource companies since 1986. Until June, 2000, he was an Executive Director and Company Secretary of Dome Resources N.L. Prior to 1978 he was employed in the auditing profession.

14 Directors' Shareholdings

At the date of this Directors Report, the Directors have the following interests in the Share Capital of Drillsearch Energy Limited and Circumpacific Energy Corporation:

Drillsearch Energy Limited	Direct No. Shares	Indirect No. Shares
J. M. Armstrong	Nil	925,259
P. F. Kelso	502,124	34,368,746
G. C. Reveleigh	Nil	1,603,967

Circumpacific Energy Corporation

P. F. Kelso	266,000	-
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The Directors shareholdings at 30th June, 2006, are also shown at Note 24 to the Financial Statement.

15 Directors' Benefits

Since 1st July, 2005, no Director of the chief entity has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or receivable by Directors shown in the Notes to the Financial Statements) by reason of a contract made by the chief entity or an entity controlled by it with a Director or with a firm in which he has substantial interest, other than:

- a) Mr. P. F. Kelso is a Director of a company, which has contracted to provide management and legal services to the chief entity. The total of payments under this contract is included in Note 25 - Directors and Executives Remuneration.
- b) During the financial year the chief entity charged the controlled Entity, Circumpacific Energy Corporation, \$Nil (2005: \$53,045) in management fees.
- c) During the financial year, Circumpacific Energy Corporation paid interest of \$277,248 to the controlled entity, Drillsearch Energy (Canada) Inc. (2005: \$263,519)

- d) During the year Circumpacific Energy Corporation charged \$48,662 (2005: \$44,558) in overhead recovery fees to Drillsearch Energy (Canada) Inc.
- e) During the year Circumpacific Energy Corporation received \$211,062 (2005: \$NIL) from the chief entity by way of contribution to litigation settlement costs.
- f) Amounts payable to and receivable from Directors and their Director related entities at balance date are as out in Notes 6, 12, 24(g) and 29 to the Financial Statements.

16 Remuneration Report

- a) Remuneration of non-executive directors is determined by the Board within the maximum amount specified in the company's Articles of Association. The remuneration structure for Executive Officers, including the Managing Director, is based on a number of factors, including length of service, particular experience of the individual concerned, areas of responsibility and overall performance of the Company.
- b) Directors remuneration is not performance based.
- c) Each director is paid in cash. No options were granted to any director or executive as part of their remuneration. The company makes share based payments by way of bonus payments in lieu of cash to selected employees from time to time. All payments are expensed at the time of issue at the prevailing market price.
- d) Directors and Executives Remuneration is also shown at Note 24 to the Financial Statements.
- e) Management Services - Managing Director

The chief entity has a services agreement with a personally related entity of the Managing Director, Mr. P. F. Kelso. The personally related entity is responsible for all statutory entitlements, if any.

Material provisions of the services agreement are:

- Term of agreement - 2 years and 1 month from 1st June, 2006.
 - Services - The personally related entity must provide Mr. Kelso as Managing Director of the chief entity and all other entities within the economic entity. Services to include executive, geological, legal and corporate services.
 - Service fees payable for the term of the agreement until 30th June, 2006, are \$335,000 per annum and \$370,000 per annum ending 30th June, 2008
 - On early termination, other than for gross misconduct, the Company must, upon such termination, pay the fees for the remaining term of the agreement.
- f) Names and positions held by chief entity, Directors and specified Executives in office at any time during the Financial Year are:

Chief Entity Directors

Mr. J. M. Armstrong, Chairman - Non-Executive
 Mr. P. F. Kelso, Managing Director - Executive
 Mr. G. C. Reveleigh, Director - Non-Executive

Specified Executives

Mr. M. L. Hutt, Company Secretary – Chief Entity
 Mr. M. Sailer, Controller of Circumpacific Energy Corporation

g) Chief Entity Directors' Remuneration

2006	Primary			Post Employment				Total
	Cash Salary, Fees & Commissions	Cash Bonus	Non Monetary Benefits	Pension & Super-annuation Benefits	Retirement	Equity Options	Other	
J. M. Armstrong	40,000	-	-	-	-	-	-	40,000
P. F. Kelso	335,000	-	25,732	-	-	-	-	360,732
G. C. Reveleigh	30,000	-	-	-	-	-	-	30,000
Total	405,000	-	25,732	-	-	-	-	430,732
2005								
J. A. Armstrong	30,000	-	-	-	-	-	-	30,000
P. F. Kelso	311,869	50,000	29,748	-	-	-	-	391,617
G. C. Reveleigh	25,000	-	-	-	-	-	-	25,000
Total	366,869	50,000	29,748	-	-	-	-	446,617

h) Specified Executives Remuneration

2006	Primary			Post Employment				Total
	Cash Salary, Fees & Commissions	Cash Bonus	Non Monetary Benefits	Pension & Super-annuation Benefits	Retirement	Equity Options	Other (Bonus Shares)	
M. L. Hutt	117,300	6,500	-	-	-	-	10,500	134,300
M. Sailer	127,447	10,427	-	-	-	-	-	137,874
Total								
2005								
M. L. Hutt	103,675	5,000	-	-	-	-	9,750	118,425
M. Sailer	116,698	-	-	-	-	-	6,400	123,098
Total								

i) Equity Instruments Granted as Remuneration

2006

300,000 shares in the chief entity were granted as remuneration by the chief entity.

None of the Directors of the chief entity were granted shares as remuneration. Specified executives who received shares as remuneration were:

M. L. Hutt – 150,000 shares

No options were granted as remuneration by the chief entity or any of its subsidiaries.

2005

720,000 shares in the chief entity were granted as remuneration by the chief entity and Circumpacific Energy Corporation.

None of the Directors of the chief entity were granted shares as remuneration. Specified executives who received shares as remuneration were:

M. L. Hutt – 150,000 shares

M. Sailer – 80,000 shares

No options were granted as remuneration by the chief entity or any of its subsidiaries.

17 Directors' and Auditors' Indemnification

The company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

18 Insurance of Officers

During the year a 62.7% controlled entity, Circumpacific Energy Corporation, paid a premium of \$17,379 to insure its Directors, Officers and employees. The liabilities insured are damages and defence costs in civil proceedings in Canada or the USA or reimbursement of defence costs if the defence proves to be successful in criminal proceedings in Canada or the USA. The limit per claim is CAD.\$3 million.

19 Directors' Meetings

During the financial year ended 30th June, 2006, Eleven (11) Directors meetings and two (2) audit committee meetings were held. The number of meetings attended by each Director was as follows:

Director	No. of Meetings	No. of Meetings	Audit Committee Meetings	
	Eligible	Attended	Eligible	Attended
P. F. Kelso	11	10	-	-
J. M. Armstrong	11	11	2	2
G. C. Reveleigh	11	11	2	2

20 Retirement, Election and Continuation in Office of Directors

Mr. G. C. Reveleigh is the Director retiring by rotation in accordance with Article 12.3 of the Articles of Association and being eligible, offers himself for re-election.

21 Proceedings on Behalf of the Company

No person has applied to the Court under Section 237 of the Corporations Law for leave to bring proceedings on behalf of the company or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under Section 237 of the Corporations Law.

22 Non-Audit Services

The company may decide to employ each auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payment to each auditor for audit and non-audit services provided during year are set out below.

The Board of Directors has considered the position and in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act, 2001*. The Directors are satisfied that the provision of non-audit services by each auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act, 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act, 2001*, is set out on page 45.

	Consolidated	
	2006	2005
	\$	\$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
Assurance Services		
1. Audit Services		
DFK - Richard Hill– Australian firm		
- Audit and review of financial reports and other audit work under the <i>Corporations Act, 2001</i>	36,000	33,130
STS Partners LLP	37,842	54,371
Total remuneration for audit services	73,842	87,501
2. Other Assurance Services		
STS Partners LLP – Litigation support	-	28,533
Taxation Services		
DFK - Richard Hill – Australian firm	-	-
STS Partners LLP	20,500	1,591
	20,500	1,591

DATED this 29th day of September, 2006

Signed in accordance with a Resolution for and on behalf of the Directors.

PHILIP F. KELSO
MANAGING DIRECTOR

GRAHAM C. REVELEIGH
DIRECTOR

CORPORATE GOVERNANCE STATEMENT

Drillsearch Energy Limited's Board of Directors is committed to enhancing shareholder value and is committed to the principles of best practice in corporate ethics encompassed in the concepts of "corporate governance". Where appropriate to a Company of our size we will honour the intent of the ASX Guidelines on corporate governance. Unless disclosed below all the best practice recommendations of the ASX Corporate Governance Council have been adopted and applied since 1st July, 2003.

THE BOARD OF DIRECTORS

Board Responsibility

The Board of Directors has the overall responsibility for:

- Oversight of the Company, including its control and accountability systems.
- Input into and final approval of management's considered proposals concerning corporate strategy and performance objectives.
- Reviewing and ratifying systems for risk management and internal compliance and control, codes of conduct and legal compliance.
- Monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available.
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures.
- Approving and monitoring financial and other reporting.

Management Responsibility

The Directors rely on management to manage the Company. The Board does not expect to be informed of all details of how the Company is managed. The Board expects to be informed of anything material or anything appropriate for consideration by the Board.

In the context of this Company, the Directors rely on management to:

- Carry out the day to day function of the Company's business affairs;
- Establish proper internal controls, management information systems and accounting records;
- Reduce to writing if appropriate and communicate policies and strategies adopted by the Board;
- Implement the policies and strategies adopted by the Board;
- Have knowledge of and review detailed figures, contracts and other information about the Company's affairs and financial position and summarise such information for the Board where appropriate;
- Prepare proposals and submission(s) for consideration by the Board;
- Prepare budgets; and,
- Attend to personnel matters including hiring and removal of staff and their terms of employment.

The Managing Director is a Director to whom the Board of Directors have delegated its powers of management of the Company's business.

Board Composition

The skills experience and expertise relevant to the position of each Director who is in office at the date of the Annual Report and their term of office are detailed in the Directors Report.

The Board comprises, Mr. J. M. Armstrong, Non-Executive Chairman, Mr. P. F. Kelso, Executive Managing Director and Mr. G. C. Reveleigh, Non-Executive Director. The Board has adopted a policy of ensuring that a majority of it comprises independent non-executive Directors.

The independent Directors are Mr. J. M. Armstrong and Mr. G. C. Reveleigh.

An independent Director is a non-executive Director, (i.e. is not a member of management) and;

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last 3 years has not been employed in an executive capacity by the Company or another group member or been a Director after ceasing to hold any such employment;
- within the last 3 years has not been a principal of a material professional adviser or a material consultant to the Company or any group member or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or other group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or another group member other than as a Director of the Company;
- has not served on the Board for a period which could or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company. In this regard, Mr. J. M. Armstrong was appointed a Director on 23rd March, 1989 and appointed Chairman on 1st June, 1989, prior to the appointment of Mr. P. F. Kelso as a Director on 15th May, 1990 and Managing Director on 28th June, 1990. Neither Mr. Armstrong nor the other members of the Board consider that his length of service materially interferes with his ability to act in the best interests of the Company, and,
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

As a smaller Company with a Board of only three (3) Directors, the whole board considers matters of membership and there is no separate nominating committee. As an expanding Company, the Board considers additional appointments in order that the Company can continually maintain the correct balance of skills and experience given the Company's state of development.

Independent Directors have access to legal or other advice, at the Company's expense, if they have need for professional assistance in the fulfillment of their duties. The approval of the Chairman must be obtained prior to incurring any such expense on behalf of the Company.

Trading Policy

The Company's policy regarding Directors and employees trading in its securities is set by the Board of Directors. The policy restricts Directors, officers and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities prices.

Audit Committee - Auditor

Until 25th July, 2005, there was no formal audit committee and all of the Directors had access to the external audit partner at any time during the year but particularly at the conclusion of the half year audit review and at the conclusion of the end of year audit.

A formal audit committee was appointed on 25th July, 2005, comprising the two (2) independent Directors, Messrs. J. M. Armstrong & G. C. Reveleigh.

The Board of Directors consider that the criteria for selection and nomination of an auditor should include:

- Appropriate professional qualifications
- Familiarity with the resource industry
- Registration in jurisdictions in which the Company operates
- Adequate availability of professional staff
- Level of fees consistent with the Company's financial resources

Performance Evaluation

A performance evaluation has not been conducted.

Remuneration Policies

Remuneration of non-executive Directors is determined by the Board within the maximum amount specified in the Company's Articles of Association. The Managing Directors remuneration is reviewed by the non executive directors.

The Company Secretary's remuneration is determined by the non executive directors.

During the financial year ended 30th June, 2006, the chief entity granted selected employees of the chief entity a total of 300,000 shares in the chief entity as remuneration. None of the Directors of the chief entity were granted shares.

The chief entity does not have an employee option scheme. There are no schemes for retirement benefits other than statutory superannuation for non executive directors.

Other Information

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities. Information disclosed to the ASX is posted on the Company's website after it is disclosed to the ASX.

Income Statement

for year ended 30th June, 2006

	Note	Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue from ordinary activities	2	12,482,700	7,940,349	7,306,834	5,030,196
Movement in inventories – increase/(decrease)		281,114	(111,872)	281,114	63,013
Direct operating expense		(4,561,110)	(3,049,903)	(2,792,006)	(2,019,007)
Employee benefits expense		(1,122,662)	(887,629)	(716,131)	(541,663)
Depreciation		(276,399)	(235,694)	(83,230)	(81,302)
Amortisation		(403,345)	(383,778)	(103,247)	(115,418)
Exploration expenses written off		(984,662)	(443,452)	(1,000)	(675)
Gain on sale of discontinuing operations		-	540,113	-	-
Borrowing costs expense		(20,158)	(85,255)	-	(15,378)
Other expenses from ordinary activities		(1,420,104)	(1,863,630)	(724,543)	(886,630)
Profit/(loss) from ordinary activities before income tax expense	3	3,975,374	1,419,249	3,167,791	1,433,136
Income tax recovery relating to ordinary activities	4	3,707	18,030	-	-
Net profit/(loss)		3,979,081	1,437,279	3,167,791	1,433,136
Net profit/(loss) attributable to outside equity interests		343,177	(271,043)	-	-
Net profit/(loss) attributable to members of the chief entity		3,635,904	1,708,322	3,167,791	1,433,136

The statement of financial performance is to be read in conjunction with the accompanying notes.

Balance Sheet

As at 30th June, 2006

	Note	Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Current					
Cash	5	3,254,086	3,108,379	2,436,964	2,720,895
Receivables	6	1,902,365	1,775,588	5,895,054	5,446,138
Other financial assets	7	220,245	342,826	118,695	342,826
Inventories	8	1,046,399	761,397	1,046,399	761,397
Total Current Assets		6,423,095	5,988,190	9,497,112	9,271,256
Non-Current Assets					
Receivables	6	12,000	-	12,000	-
Other financial assets	7	730,570	200,000	8,121,503	5,779,761
Property, plant & equipment	9	2,808,158	2,268,915	553,453	499,630
Petroleum properties	10	27,261,240	14,257,915	15,551,171	6,167,192
Intangible assets	11	30,328	19,263	30,328	19,263
Total Non-Current Assets		30,842,296	16,746,093	24,268,455	12,465,846
Total Assets		37,265,391	22,734,283	33,765,567	21,737,102
Current Liabilities					
Payables	12	4,742,777	1,836,405	5,619,329	2,649,446
Borrowings	13	288,300	233,200	6,421	8,613
Provisions	16	4,962	7,595	4,962	7,595
Total Current Liabilities		5,036,039	2,077,200	5,630,712	2,665,654
Non-Current Liabilities					
Borrowings	13	-	6,421	-	6,421
Provisions	16	2,189,292	1,047,578	232,060	190,976
Deferred tax liabilities	15	341,861	302,462	-	-
Total Non-Current Liabilities		2,531,153	1,356,461	232,060	197,397
Total Liabilities		7,567,192	3,433,661	5,862,772	2,863,051
Net Assets		29,698,199	19,300,622	27,902,795	18,874,051
Equity					
Contributed equity	17	30,339,117	24,566,698	30,339,117	24,566,698
Reserves	18(a)	2,315,785	1,165,898	(369,748)	(458,282)
Accumulated losses	18(b)	(5,027,179)	(8,663,083)	(2,066,574)	(5,234,365)
Chief entity interest		27,627,723	17,0069,513	27,902,795	18,874,051
Outside equity interest	19	2,070,476	2,231,109	-	-
Total Equity		29,698,199	19,300,622	27,902,795	18,874,051

The statement of financial position is to be read in conjunction with the accompanying notes

Statement of Cash Flows

for the year ended 30th June, 2006

	Note	Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash Flows from Operating Activities					
Cash receipts in the course of operations		12,722,854	8,386,163	7,682,146	5,219,443
Cash payments in the course of operations		(7,774,099)	(7,571,884)	(4,898,214)	(5,012,760)
Interest received		110,438	115,085	110,438	198,665
Interest paid		(20,169)	(85,255)	(1,559)	(15,378)
Income tax paid			(53,513)		-
Net cash provided by/(used in) operating activities	31(b)	5,039,024	790,596	2,892,811	389,970
Cash Flows from Investing Activities					
Payments for non current assets		(164,969)	(602,091)	(160,353)	(139,070)
Proceeds from disposal of non-current assets		17,485	2,394,963	17,485	-
Payments for shares in other corporations		(1,022,210)	(327,401)	(782,757)	(327,402)
Proceeds from disposal of shares in other corporations		103,906	154,951	101,371	154,951
Purchase of shares in related parties		(588,825)	-	(1,419,094)	-
Repayment of loans from third parties		-	40,802	-	35,497
Loans to third parties		(9,290)	-	(9,290)	-
Loans to related parties		-	-	(514,949)	(128,588)
Loans from related parties repaid		374	4,720	374	100,207
Payment in relation to petroleum properties		(9,039,285)	(4,344,725)	(6,358,208)	(2,868,978)
Net cash provided by/(used in) investing activities		(10,702,814)	(2,678,781)	(9,125,421)	(3,173,383)
Cash Flows from Financing Activities					
Issue of shares		6,017,045	2,653,350	6,017,045	2,653,350
Repayments of director related loan		(8,613)	(215,881)	(8,613)	(215,881)
Repayment of borrowings		29,702)	(758,101)		(7,392)
Proceeds from borrowings			64,428		-
Share issue costs		(244,626)	(182,000)	(244,626)	(182,000)
Net cash provided by/(used in) financing activities		5,793,508	1,561,796	5,763,806	2,248,077
Net Increase/(Decrease) In Cash Held		129,718	(326,389)	468,804	(535,336)
Cash at Beginning of Financial Year		3,108,379	3,442,360	2,720,895	3,258,427
Effect of Exchange Rates on Cash Holdings in Foreign Currencies		15,989	(7,592)	184,873	(2,196)
Cash at the End of the Financial Year	31(a)	3,254,086	3,108,379	2,436,964	2,720,895

The statement of cash flows is to be read in conjunction with the accompanying notes.

Statement of Changes in Equity - Consolidated

for the year ended 30th June, 2006

	<i>Share Capital</i> \$	<i>Accumulated Losses</i> \$	<i>Reserves</i> \$	<i>Minority Interests</i> \$	<i>Total</i> \$
Balance at 1 July, 2004	22,095,348	(10,371,405)	1,416,380	2,524,921	15,665,244
Shares issued during the period	2,653,350				2,653,350
Share issue expenses	(182,000)				(182,000)
Profit attributable to members of parent entity		1,708,322			1,708,322
Net exchange differences recorded in equity			(41,802)		(41,802)
Profit attributable to minority shareholders				(271,043)	(271,043)
Reduction in reserves				(22,769)	(22,769)
Adoption of IFRS			(208,680)		(208,680)
Balance as at 30th June, 2005	24,566,698	(8,663,083)	1,165,898	2,231,109	19,300,622
Balance at 1 July, 2005	24,566,698	(8,663,083)	1,165,898	2,231,109	19,300,622
Shares issued during the period	6,017,028				6,017,028
Share issue expenses	(244,609)				(244,609)
Profit attributable to members of parent entity		3,635,904			3,635,904
Net exchange differences recorded in equity			2,234,868		2,234,868
Profit attributable to minority shareholders				343,177	343,177
Reduction in reserves				(503,810)	(503,810)
Share value decrement in long term investment recorded in equity			(624,323)		(624,323)
Net decrease in reserves on part acquisition of minority interests			(460,658)		(460,658)
Balance as at 30th June, 2006	30,339,117	(5,027,179)	2,315,785	2,070,476	29,698,199

Statement of Changes in Equity – Chief Entity

for the year ended 30th June, 2006

	<i>Share Capital</i> \$	<i>Accumulated Losses</i> \$	<i>Reserves</i> \$	<i>Total</i> \$
Balance at 1 July, 2004	22,095,348	(6,667,500)	(436,214)	14,991,634
Shares issued during the period	2,653,350			2,653,350
Share issue expenses	(182,000)			(182,000)
Profit attributable to members of parent entity		1,433,136		1,433,136
Net exchange differences recorded in equity			(22,068)	(22,068)
Balance as at 30th June, 2005	24,566,698	(5,234,364)	(458,282)	18,874,052
Balance at 1 July, 2005	24,566,698	(5,234,364)	(458,282)	18,874,052
Shares issued during the period	6,017,028			6,017,028
Share issue expenses	(244,609)			(244,609)
Profit attributable to members of parent entity		3,167,790		3,167,790
Share value decrement in long term investment recorded in equity			(490,695)	(490,695)
Increase in foreign currency translation reserve			579,229	579,229
Balance as at 30th June, 2006	30,339,117	(2,066,574)	(369,748)	27,902,795

Notes to and Forming Part of the Financial Statements

For the Year Ended 30th June, 2006

1. Statement of Significant Accounting Policies

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

a) Statement of Compliance

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

This is Drillsearch's first financial report prepared in accordance with the Australian Accounting Standards, being AIFRS and IFRS and AASB 1 First Time Adoption of Australian Equivalents to International Financial Report Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position and financial performance of Drillsearch is provided in the Statement of Changes in Equity.

b) Basis Preparation

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

c) Basis of Consolidation

i) *Subsidiaries*

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

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

ii) *Joint Ventures*

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

iii) *Jointly Controlled Operations and Assets*

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

iv) *Transactions Eliminated on Consolidation*

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

d) Operating Revenue – Note 2

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

e) Revenue Recognition

Sales Revenue

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

Interest Income

Interest income is recognised as it accrues.

Asset Sales

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

f) Cash

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

g) Foreign Currency

Transactions

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

Translation of Controlled Foreign Entities

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

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

h) Taxation – Note 4

Income Tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit 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.

i) Investments – Note 7

Controlled Entities

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

Other Companies

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

Interest in Joint Ventures

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

j) Property, Plant and Equipment – Note 9

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

Depreciation and Amortisation

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

Assets are depreciated or amortised from the date of acquisition.

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

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

k) Exploration, Evaluation and Development Expenditure

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 as set out in paragraph (j) above over the life of the economically recoverable reserves.

l) Petroleum Properties – Note 10

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.

Depletion of oil and gas properties and amortisation of production facilities and equipment for the group are calculated using the unit-of-production method based on estimated proven oil and gas reserves as determined

by independent reservoir engineers. For the purposes of the depletion calculated, proven oil and gas reserves before royalties are converted to a common unit of measure.

The estimated costs for developing proved undeveloped reserves, future site restoration and abandonments, net of estimated salvage values, are provided for on the unit of production method included in the provision for depletion and amortisation.

In applying the full cost method of accounting, capitalised costs less accumulated depletion are restricted from exceeding an amount equal to the estimated undiscounted future net revenues, based on year end prices and costs, less the aggregate estimated future general and administrative financing and income tax costs derived from proven reserves or the capitalised cost less impairment of unproved properties.

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

m) Impairment

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

An impairment loss is recognised whenever the carrying amount of an assets or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through profit or loss.

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

Calculation of Recoverable Amount

The recoverable amount of Drillsearch's investments in held to maturity securities and receivables carried at amortised cost is calculated as a the present value of estimated future cash flows, discounted at the original effective rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short during are not discounted.

The recoverable amount of other assets is the grater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

n) Restoration, Rehabilitation and Environmental Expenditure

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

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

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

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

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

o) Leases

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

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

p) Going Concern

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

q) Inventories – Note 8

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

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

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

r) Earnings per Share – Note 30

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

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

s) Employee Entitlements

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

Employee Benefits – Share Based Payments

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

t) Receivables – Note 6

Trade Debtors

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

u) Payables – Note 12

Trade and Other Creditors

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

v) Bank Loans – Note 14

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

w) Comparative Figures

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

	Note	Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
2. Revenue					
Operating Activities					
Sales Revenue					
- Australia		7,102,025	4,836,176	7,102,025	4,621,050
- Canada		5,187,172	2,823,167	-	-
- Interest received		110,438	115,085	110,438	198,665
Share valuation increment		40,520	-	40,520	-
Gain on sale of investments		36,366	154,951	36,366	154,951
Other Income		(11,306)	8,485	-	-
Proceeds on disposal of property, plant & equipment		17,485	2,485	17,485	2,485
Management fees		-	-	-	53,045
		12,482,700	7,940,349	7,306,834	5,030,196

3. Profit /(Loss) from Ordinary Activities

a) Net gains and expenses

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

Net gain(loss) on disposal of:					
- investments		-	37,082	-	37,082
- property, plant and equipment		17,485	575,384	17,485	1,162
Unrealised foreign exchange gains/(loss)		-	33,226	-	(2,796)
Realised foreign exchange gains/(loss)		(94,139)	26,982	(94,139)	26,982
Expenses					
Cost of sales		4,279,996	3,258,456	-	1,955,994
Depreciation of non-current assets		276,399	235,694	83,230	81,302
Amortisation of non-current assets		403,345	383,778	103,247	115,418
Exploration expenditure written off		984,662	443,452	1,000	675
Borrowing costs					
- Interest and finance charges		20,158	88,255	1,559	15,378
Share valuation decrement		40,520	26,312	40,520	26,312
Bad debts written off		20,677	-	20,677	-
Provisions					
- Employee entitlements		(1,549)	(347)	(1,549)	(349)
- Doubtful debts		(4,145)	209,821	(4,145)	4,145

b) Significant Revenues and Expenses

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

During the previous period a controlled entity sold its cattle operation including land and cattle for a profit of

Legal fees and litigation settlement costs expensed in the current period		-	580,991	-	-
		(282,556)	-	-	-

Note	Consolidated		Chief Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
4. Taxation				
a) Income Tax Expense				
The prima facie income tax expense/(benefit) calculated at 30% (2005: 30%) on the operating result	1,192,612	371,174	950,337	425,118
Add: Tax effect of:				
- adjustment to deferred tax liability in respect of Canadian operations	(3,707)	-	-	-
- other non-allowable items	-	71,038	-	-
- income tax benefit realised in respect of tax losses not previously brought to account	1,192,612	(442,212)	950,337	(425,118)
- change in Canadian tax rate	-	(18,030)	-	-
Income tax expense/(benefit)	(3,707)	(18,030)	-	-
b) Future Income Tax Benefits not taken into account				
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery is not virtually certain.				
Tax losses carried forward				
- Canadian at 33.24%	4,464,058	5,454,392	-	-
- Australian at 30.0%	8,927,772	2,299,204	8,927,772	2,316,928
	13,391,830	7,753,596	8,927,772	2,316,928
5. Cash				
Cash on hand and at bank	3,254,086	3,108,379	2,436,964	2,720,895
	3,254,086	3,108,379	2,436,964	2,720,895
6. Receivables				
Current:				
Trade Debtors	1,288,834	934,205	478,865	361,482
Other debtors and prepayments	730,823	1,012,349	618,466	795,560
	2,019,657	1,946,554	1,097,331	1,157,042
Less: Provision for doubtful debts	(180,489)	(210,480)	118,574	(122,719)
	1,839,168	1,736,074	978,757	1,034,323
Unsecured loans receivable from:				
- wholly owned subsidiaries	-	-	4,506,100	4,044,870
- partly owned subsidiaries	-	-	381,150	327,431
- director related entities	22,983	22,983	22,983	22,983
- other parties	40,214	16,531	6,064	16,531
	63,197	39,514	4,916,297	4,411,815
Total receivables	1,902,365	1,775,588	5,895,054	5,446,138
Non-Current:				
Security deposits	12,000	-	12,000	0

	Note	Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
7. Financial Assets					
a) Current assets – Other financial assets at fair value through profit or loss.					
Australian listed equity securities		120,245	342,826	118,695	342,826
Unlisted shares		100,000	-	-	-
Total		220,245	342,826	118,695	342,826
b) Non-current assets – Available for sale financial assets					
i) Listed securities					
- Equity securities		530,570	-	427,321	-
ii) Unlisted securities					
- Equity securities		200,000	200,000	200,000	200,000-
		730,570	200,000	627,321	200,000-
iii) Non current assets – other financial assets					
- Shares in controlled entities at cost		-	-	7,494,182	5,579,761
Total non-current financial assets		730,570	200,000	8,121,503	5,779,761

8. Inventories

Petroleum stocks on hand	1,006,850	725,736	1,006,850	725,736
Stores	39,549	35,661	39,549	35,661
	1,046,399	761,397	1,046,399	761,397

Petroleum stocks on hand are the chief entity's share of the Queensland Joint Venture interests.

9. Property, Plant and Equipment

Production plant	3,765,207	3,271,630	778,724	640,466
Disposals during the year	(17,485)	-	(17,485)	-
Foreign Currency Translation	168,088	(53,837)	-	-
Profit and disposal	17,485	-	17,485	-
Accumulated depreciation	(1,507,331)	(1,282,396)	(257,285)	(180,888)
	2,425,964	1,935,397	521,439	459,578
Plant and equipment	880,602	731,615	143,403	140,651
Accumulated depreciation	(515,319)	(418,965)	128,300	(121,467)
	365,283	312,650	15,103	19,184
Leased assets	22,397	22,397	22,397	22,397
Accumulated amortisation	(8,372)	(5,135)	(8,372)	(5,135)
	14,025	17,262	14,025	17,262
Leasehold improvements	12,043	12,043	12,043	12,043
Accumulated amortisation	(9,157)	(8,437)	(9,157)	(8,437)
	2,886	3,606	2,886	3,606
Total Property, Plant and Equipment	2,808,158	2,268,915	553,453	499,630

Reconciliation

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

	Production Plant	Plant & Equipment	Leased Assets	Leasehold Improvements	Total
Consolidated					
Carrying amount at 1.7.2005	1,935,397	312,650	17,262	3,606	2,268,915
Additions	493,577	56,752	-	-	550,329
Disposals	(17,485)	-	-	-	(17,485)
Depreciation/amortisation	(224,935)	(51,464)	(3,237)	(720)	(280,356)
Foreign currency exchange differences	221,925	47,345	-	-	269,270
Profit/(loss) on disposal	17,485	-	-	-	17,485
Carrying amount at 30.6.2006	2,425,964	365,283	14,025	2,886	2,808,158
Chief Entity					
Carrying amount at 1.7.2005	459,578	19,184	17,262	3,606	499,630
Additions	138,258	2,752	-	-	141,010
Disposals	(17,485)	-	-	-	(17,485)
Depreciation/amortisation	(76,397)	(6,833)	(3,237)	(720)	(87,187)
Profit/(loss) on disposal	17,485	-	-	-	17,485
Carrying amount at 30.6.2006	521,439	15,103	14,025	2,886	553,453

10. Exploration, Development & Petroleum Properties

	Consolidated		Chief Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Exploration				
Balance brought forward	4,646,114	3,354,195	2,541,940	1,309,817
Foreign currency translation	259,343	(22,768)	-	-
Expenditure incurred during year	719,351	2,240,328	87,254	1,232,798
Transferred to development	-	(273,509)	-	-
Transferred to petroleum properties	-	-	-	-
Expenditure written off during the year	(984,662)	(443,452)	(1,000)	(675)
Adoption of IFRS	-	(208,680)	-	-
Balance carried forward	4,640,146	4,646,114	2,628,194	2,541,940
Development				
Balance brought forward	4,366,272	2,367,064	1,958,455	217,706
Foreign currency translation	363,968	(17,061)	-	-
Expenditure incurred during year	10,877,538	2,084,968	9,344,779	1,740,749
Transferred from exploration	-	273,509	-	-
Transferred to petroleum properties	(1,158,614)	(342,208)	-	-
Balance carried forward	14,449,164	4,366,272	11,303,234	1,958,455
Petroleum Properties				
Balance brought forward	5,245,529	5,194,010	1,666,797	1,770,915
Expenditure incurred during the year	972,287	135,258	40,000	-
Transferred from development	1,158,614	342,208	-	-
Transferred from exploration & evaluation	-	-	-	-
Amortisation expense	(287,152)	(369,568)	(87,054)	(104,118)
Foreign currency translation	1,082,652	(56,379)	-	-
Balance carried forward	8,171,930	5,245,529	1,619,743	1,666,797
Total exploration, development & petroleum properties	27,261,240	14,257,915	15,551,171	6,167,192

	Note	Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
11. Intangible Assets					
Non-Current Assets:					
Computer software at cost		48,538	25,237	48,538	25,237
Less: Accumulated amortisation & impairment		18,210	5,974	18,210	5,974
		<u>30,328</u>	<u>19,263</u>	<u>30,328</u>	<u>19,263</u>

12. Payables

Current:

Trade Creditors		4,507,605	892,354	3,514,725	888,522
Other Creditors		234,798	943,677	209,510	100,000
Loans					
- director related entities	29	374	374	374	374
- wholly owned subsidiaries	29	-	-	1,894,720	1,660,550
		<u>4,742,777</u>	<u>1,836,405</u>	<u>5,619,329</u>	<u>2,649,446</u>

13. Borrowings

Current:

Unsecured Liabilities

Other loans		99,130	64,723	-	-
Lease and hire purchase liabilities	22	6,421	8,613	6,421	8,613

Secured Liabilities

- mortgage loans	14	182,749	159,864	-	-
		<u>288,300</u>	<u>233,200</u>	<u>6,421</u>	<u>8,613</u>

Non-Current:

Unsecured Liabilities

Lease and hire purchase liabilities	22	-	6,421	-	6,421
		<u>-</u>	<u>6,421</u>	<u>-</u>	<u>6,421</u>

14. Financing Arrangements

The consolidated entity has access to the following lines of credit:

Total facilities available

- Mortgage loan		182,749	159,864	-	-
- Other loans - unsecured		99,130	64,723	-	-
		<u>281,879</u>	<u>224,587</u>	<u>-</u>	<u>-</u>

Facilities utilised at balance date:

- Mortgage loan	13	182,749	159,864	-	-
- Other loans - unsecured	13	99,130	64,723	-	-
		<u>281,879</u>	<u>224,587</u>	<u>-</u>	<u>-</u>

Facilities not utilised at balance date:

- Mortgage loans	13	-	-	-	-
- Other loans unsecured	13	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Mortgage and Other Loans:

2006

The mortgage loan of \$182,749, is due 31st August, 2007 and secured by a condominium owned by Drillsearch Energy (Canada) Inc.

During the 2005 fiscal year the company entered into a Pipeline Funding Agreement. The loan payable of \$99,130 is unsecured, due on demand and repayable from the company's share of production revenue from certain wells. As at the 30th June, 2006, the balance payable on the loan is \$99,130 (2005: \$64,723). Interest is being charged on this loan at 10% per annum.

2005

The balance of mortgage loan of \$159,864 is secured by a condominium owned by Drillsearch Energy (Canada) Inc. During the year that company also entered into a pipeline funding agreement at an interest rate of 10%. The loan is unsecured due on demand and repayable from the company's share of production from certain wells. The balance of the loan is \$64,723.

Note	Consolidated		Chief Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

15. Tax Liabilities

Current

Income tax - -

Non-Current

Provision for deferred income tax 341,861 302,462 - -

16. Provisions

Current:

Employee entitlements 4,962 7,595 4,962 7,595

Non-Current:

Employee entitlements 17,060 15,976 17,060 15,976

Restoration & rehabilitation 2,172,232 1,031,602 215,000 175,000

2,189,292 1,047,578 232,060 190,976

17. Share Capital

Note	Consolidated		Chief Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

a) Issued Capital 403,393,696 shares (2005: 331,555,975)

Ordinary shares fully paid 30,339,117 24,566,698 30,339,117 24,566,698

b) Movements in issued ordinary shares

Date	Details	Number of Shares	Issued Price	Amount \$
1.7.2004	Opening Balance	298,330,975		22,095,348
22.12.2004	Allotment	300,000	.0645	19,350
31.1.2005	Allotment	5,000	.08	400
6.4.2005	Allotment	32,920,000	.08	2,633,600
30.6.2005				24,748,698
Less:	Transaction costs arising on share issues recognised directly in equity	-	-	(182,000)
30.6.2005		331,555,975		24,566,698
22.12.2005	Shareholder Share Purchase Plan	22,118,328	.07	1,548,283
22.12.2005	Issue to Employees	300,000	.07	21,000
28.4.2006	Placement of shares	49,419,393	.09	4,447,745
				30,583,726
Less:	Transaction costs arising on share issues recognised directly in equity	-	-	(244,609)
30.6.2006	Balance	403,393,696		30,339,117

Note	Consolidated		Chief Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
18. Reserves				
a) Asset revaluation reserve				
Asset revaluation reserve	235,370	1,320,351	(490,695)	-
Foreign currency translation reserve	2,080,415	(154,453)	120,947	(458,282)
	<u>2,315,785</u>	<u>1,165,898</u>	<u>(369,748)</u>	<u>(458,282)</u>
Foreign currency translation reserve:				
- balance at beginning of year	(154,453)	96,029	(458,282)	(436,214)
- foreign currency translation on adopting of capital IFRS	-	(208,680)	-	-
- movement in translation of self sustaining overseas subsidiaries/branch's financial statements	2,234,868	(41,802)	579,229	(22,068)
Balance at end of year	<u>2,080,415</u>	<u>(154,453)</u>	<u>120,947</u>	<u>(458,282)</u>
The foreign currency translation reserve records exchange differences arising on translation of overseas subsidiaries/branch's financial statements				
Asset revaluation reserve:				
- balance at beginning of year	1,320,351	1,320,351	-	-
- asset revaluation	(1,084,981)	-	(490,695)	-
Balance at end of year	<u>235,370</u>	<u>1,320,351</u>	<u>(490,695)</u>	<u>-</u>

b) Accumulated Losses

Balance at beginning of the year	(8,663,083)	(10,371,405)	(5,234,365)	(6,667,500)
Net profit/(loss) attributable to members of the chief entity	3,635,904	1,708,322	3,167,791	1,433,135
Balance at the end of the year	<u>(5,027,179)</u>	<u>(8,663,083)</u>	<u>(2,066,574)</u>	<u>(5,234,365)</u>

19. Outside Equity Interest

Analysis of outside equity interest in controlled entities

- Share capital	2,975,455	4,438,954	-	-
- Accumulated losses	(1,274,156)	(2,412,830)	-	-
- Reserves	369,177	204,985	-	-
	<u>2,070,476</u>	<u>2,231,109</u>	<u>-</u>	<u>-</u>

20. Joint Venture Interests

Joint venture interests in oil and gas properties have been included in the statement of financial position as follows:

Current Assets

Receivables	1,251,033	711,530	478,865	358,792
Petroleum inventory	1,006,850	725,736	1,006,850	725,736
Stores on hand	39,549	35,661	39,549	35,661
	<u>2,297,432</u>	<u>1,472,927</u>	<u>1,525,264</u>	<u>1,120,189</u>

Non- Current Assets

Exploration & evaluation	3,111,705	4,646,114	2,430,967	2,541,940
Development	14,449,164	4,366,272	11,303,234	1,958,455
Petroleum properties	8,171,930	5,245,529	1,619,743	1,666,797
Production plant	2,425,964	1,935,397	521,439	459,578
	<u>28,158,763</u>	<u>16,193,312</u>	<u>15,875,383</u>	<u>6,626,770</u>
Total Joint Venture Assets	<u>30,456,195</u>	<u>17,666,239</u>	<u>17,400,647</u>	<u>7,746,959</u>

21. Financial Instruments

(a) Interest rate risk exposures

The consolidated entity'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:

	Note	Fixed Interest Maturing In:				Total
		Floating Interest Rate	1 Year or Less	1 to 5 Years	Non-Interest Bearing	
		\$	\$	\$	\$	\$
2006						
Financial Assets						
Cash and deposits	5	2,373,434	-	-	880,652	3,254,086
Receivables	6	-	-	-	1,914,365	1,914,365
Other financial assets (shares held as trading stock)	7	-	-	-	750,815	750,815
Non current investment					200,000	200,000
		2,373,434	-	-	3,745,832	6,119,266
Weighted average Interest rate		4.48%				
Financial Liabilities:						
Trade creditors	12	-	-	-	4,507,605	4,507,605
Other creditors	12	-	-	-	234,798	234,798
Lease and hire purchase liabilities	13	-	6,421	-	-	6,421
Mortgage loans	13	-	182,749	-	-	182,749
Director related loan	24, 29	-	-	-	374	374
Other loans		-	99,130	-	-	99,130
		-	288,300	-	4,742,777	5,031,077
Weighted average Interest rate			9.52%			
Net financial assets/(liabilities)		2,373,434	(288,300)	-	(996,945)	1,088,189
2005						
Financial Assets						
Cash and deposits	5	2,640,998	-	-	467,381	3,108,379
Receivables	6	-	-	-	1,775,588	1,775,588
Other financial assets (shares held as trading stock)	7	-	-	-	342,826	342,826
Non current investment		-	-	-	200,000	200,000
		2,640,998	-	-	2,785,795	5,426,793
Weighted average Interest rate		5.00%				
Financial Liabilities:						
Trade creditors	12	-	-	-	892,354	892,354
Other creditors	12	-	-	-	943,677	943,677
Lease and hire purchase liabilities	13	-	8,613	6,421	-	15,034
Mortgage loans	13	-	159,864	-	-	159,864
Director related loan	24, 29	-	-	-	374	374
Other loans		-	64,723	-	-	64,723
		-	233,200	6,421	1,836,405	2,076,026
Weighted average Interest rate			9.72%	7.00%		
Net financial assets/(liabilities)		2,640,998	(233,200)	(6,421)	949,390	3,350,767

21. Financial Instruments (cont)

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

	Note	Consolidated	
		2006	2005
		\$	\$
Net financial assets/(liabilities) as above		1,088,189	3,350,767
Non financial assets and liabilities			
- Inventories	8	1,046,399	761,397
- Plant and equipment	9	2,808,158	2,268,915
- Petroleum properties	10	27,261,240	14,466,595
- Intangible assets	11	30,328	19,263
- Provisions	16	(2,194,254)	(1,055,173)
- Tax liabilities	15	(341,861)	(302,462)
- Adjustment on adoption of IFRS		-	(208,680)
Net assets per balance sheet		29,698,199	19,300,622

(b) Credit risk exposure

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted.

The credit risk on financial assets, excluding investments of the consolidated entity, which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity attempts to minimise credit risk exposure on trade debtors by undertaking transactions with a large number of customers. However, at balance date, the consolidated entity had concentrations of credit risk on trade and term debtors due from customers as follows:

	Consolidated	
	2006	2005
	\$	\$
Business sections – trade debtors		
- oil and gas	100.0%	100.0%
Countries – trade debtors		
- Australia	53.6%	44.4%
- Canada	46.4%	55.6%

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.

(c) Net fair value of financial assets and liabilities

Valuation approach

Net fair value of financial assets and liabilities are determined by the consolidated entity 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.

21. Financial Instruments (cont)

On-balance sheet financial instruments (cont.,)

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

	Consolidated		Consolidated	
	2006 Carrying Amount \$	2006 Net Fair Value \$	2005 Carrying Amount \$	2005 Net Fair Value \$
Financial Assets:				
Cash	3,254,086	3,254,086	3,108,379	3,108,379
Receivables	1,914,365	1,914,365	1,775,588	1,775,588
Other financial assets (shares held as trading stock) - current	220,245	220,245	342,826	342,826
Non-current investments	730,570	730,570	200,000	200,000
Financial Liabilities:				
Trade creditors	4,507,605	4,507,605	892,354	892,354
Other creditors	234,798	234,798	943,677	943,677
Lease and hire purchase liabilities	6,421	6,421	15,034	15,034
Mortgage loans	182,749	182,749	159,864	159,864
Director related loan	374	374	374	374
Other loans	99,130	99,130	64,723	64,723

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.

22. Contingent Liabilities and Commitments

Note	Consolidated		Chief Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) Commitments				
Expenditure commitments on existing oil and gas properties	8,450,000	-	8,450,000	-
Balance of purchase price of oil & gas properties (excluding GST)	-	500,000	-	-
(b) Financial Lease Commitments				
Finance lease rentals are payable as follows:				
Not later than one year	6,421	10,089	6,421	10,089
Later than one year but not later than five years	-	6,726	-	6,726
	6,421	16,815	6,421	16,815
Less: Finance charges	422	1,781	422	1,781
	5,999	15,034	5,999	15,034
Represented by:				
- current	13	5,999	8,613	5,999
- non-current	13	-	6,421	-
	5,999	15,034	5,999	15,034
(c) Operating Lease Commitments				
As at 30th June, 2006, the consolidated entity had commitments for rental of office space and equipment. The minimum payments are as follows:				
Not later than one year	250,704	107,446	162,800	-
Later than one year but not later than five years	492,253	311,719	325,600	-
	742,957	419,165	488,400	-

(d) Contingent Liabilities

Contingent liability in respect of Canadian income tax due to the deferral of income tax liability of the 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 it is the intention that the shares will never be sold by the Canadian branch, this amount is regarded as a contingent liability - \$521,000 (2005: \$593,357).

23. Particulars in Relation to the Chief Entity and Consolidated Entities

	Class	% Held 2006	% Held 2005	Place of Incorporation
Chief 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	62.7	44	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
Drillsearch Energy (WA) Pty Limited (10)	Ord	100	N/A	Australia

Notes:

1. Drillsearch Energy (Canada) Inc. is incorporated in the Province of Alberta, Canada.
2. Circumpacific Energy Corporation is incorporated in the Province of British Columbia, Canada and is a petroleum producer and explorer.
3. The chief entity is audited by DFK - Richard Hill, Chartered Accountants, Sydney, Australia
4. 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.
5. Circumpacific Energy Corporation is audited by STS Partners LLP, Chartered Accountants, Vancouver, Canada.
6. Kun Yick International Limited, operates solely as a holding company of an inter company loans.
7. In 2006 Circumpacific Energy Corporation was controlled by Drillsearch Energy Limited due to the company holding 62.7% of the share capital in Circumpacific Energy Corporation and the fact that both companies shared the same Managing Director. (2005: 44%)
8. TransOceanic Securities Pty Limited is incorporated in New South Wales, Australia. It is audited by DFK - Richard Hill, Chartered Accountants, Sydney, Australia.
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 Richard Hill & Associates, 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 Richard Hill & Associates, Chartered Accountants, Sydney, Australia.

24. Directors' and Executives Remuneration

a) Names and positions held by chief entity, Directors and specified Executives in office at any time during the Financial Year are:

Chief Entity Directors

Mr. J. M. Armstrong, Chairman - Non-Executive
Mr. P. F. Kelso, Managing Director - Executive
Mr. G. C. Reveleigh, Director - Non-Executive

Specified Executives
Mr. M. L. Hutt, Company Secretary – Chief Entity
Mr. M. Sailer, Controller of Circumpacific Energy Corporation

b) Chief Entity Directors' Remuneration

2006	Primary			Post Employment				Total
	Cash Salary, Fees & Commissions	Cash Bonus	Non Monetary Benefits	Pension & Super- annuation Benefits	Retirement	Equity Options	Other	
J. M. Armstrong	40,000	-	-	-	-	-	-	40,000
P. F. Kelso	335,000	-	25,732	-	-	-	-	360,732
G. C. Reveleigh	30,000	-	-	-	-	-	-	30,000
Total	405,000	-	25,732	-	-	-	-	430,732
2005								
J. A. Armstrong	30,000	-	-	-	-	-	-	30,000
P. F. Kelso	311,869	50,000	29,748	-	-	-	-	391,617
G. C. Reveleigh	25,000	-	-	-	-	-	-	25,000
Total	366,869	50,000	29,748	-	-	-	-	446,617

c) Specified Executives Remuneration

2006	Primary			Post Employment				Total
	Cash Salary, Fees & Commissions	Cash Bonus	Non Monetary Benefits	Pension & Super- annuation Benefits	Retirement	Equity Options	Other (Bonus Shares)	
M. L. Hutt	117,300	6,500	-	-	-	-	10,500	134,300
M. Sailer	127,447	10,427	-	-	-	-	-	137,874
Total								
2005								
M. L. Hutt	103,675	5,000	-	-	-	-	9,750	118,425
M. Sailer	116,698	-	-	-	-	-	6,400	123,098
Total								

d) Equity Instruments Granted as Remuneration

2006

300,000 shares in the chief entity were granted as remuneration by the chief entity.

None of the Directors of the chief entity were granted shares as remuneration. Specified executives who received shares as remuneration were:

M. L. Hutt – 150,000 shares

No options were granted as remuneration by the chief entity or any of its subsidiaries.

2005

720,000 shares in the chief entity were granted as remuneration by the chief entity and Circumpacific Energy Corporation.

None of the Directors of the chief entity were granted shares as remuneration. Specified executives who received shares as remuneration were:

M. L. Hutt – 150,000 shares

M. Sailer – 80,000 shares

No options were granted as remuneration by the chief entity or any of its subsidiaries.

e) Equity Instrument Disclosures

The number of options over unissued shares and shares in the chief entity and the controlled entity held during the year by each Director of the chief entity and each specified executive including their personally related entities are set out below:

Chief Entity

i) Shares

	Balance at the Start of the Year	Received During Year on Exercise of Options	Other Changes During the Year	Balance at the End of the Year
P. F. Kelso	34,605,746	-	(285,000)	34,320,746
J. M. Armstrong	925,259	-	-	925,259
G. C. Reveleigh	850,000	-	753,967	1,603,967
M. L. Hutt	325,000	-	211,904	536,904
M. Sailer	80,000	-	-	80,000

ii) Options

During the year no directors of the chief entity and no specified executive had any options in the chief entity.

Controlled Entity - Circumpacific Energy Corporation

i) Shares

	Balance at the Start of the Year	Received During Year on Exercise of Options	Other Changes During the Year	Balance at the End of the Year
P. F. Kelso	266,000	-	-	266,000
M. Sailer	130,000	-	-	130,000

ii) Options

During the year no director of the chief entity and no specified executive had any options in the controlled entity.

f) Remuneration Practices

The Company's policy for determining the nature and amount of remuneration is as follows:

Remuneration of non-executive Directors is determined by the Board within the maximum amount specified in the Company's Articles of Association.

The remuneration structure for Executive Officers, including the Managing Director, is based on a number of factors, including length of service, particular experience of the individual concerned, areas of responsibility and overall performance of the Company.

Management Services - Managing Director

The chief entity has a services agreement with a personally related entity of the Managing Director, Mr. P. F. Kelso. The personally related entity is responsible for all statutory entitlements, if any.

Material provisions of the services agreement are:

- Term of agreement - 2 years and 1 month from 1st June, 2006.
- Services - The personally related entity must provide Mr. Kelso as Managing Director of the chief entity and all other entities within the economic entity. Services to include executive, geological, legal and corporate services.
- Service fees payable for the term of the agreement until 30th June, 2006, are \$335,000 per annum and \$370,000 per annum ending 30th June, 2008
- On early termination, other than for gross misconduct, the Company must, upon such termination, pay the fees for the remaining term of the agreement.

g) Loans to Directors and Executives

Details of loans made to directors of the chief entity and the specified executives of the consolidated entity, including their personally related entities, are set out below:

Aggregates for directors and specified executives

2006

Group	Balance at the Start of the Year	Interest Paid and Payable for the Year	Interest Not Charged	Balance at the End of the Year	Number in Group at the End of the Year
Directors of the chief entity	22,983	-	-	22,983	1
Specified executives of the consolidated entity	12,879	-	-	14,620	1

2005

Group	Balance at the Start of the Year	Interest Paid and Payable for the Year	Interest Not Charged	Balance at the End of the Year	Number in Group at the End of the Year
Directors of the chief entity	33,078	-	-	22,983	1
Specified executives of the consolidated entity	12,899	-	-	12,789	1

The loans outstanding at the end of the current and prior year are unsecured non interest bearing loans at call. A commercial rate of interest for these loans would be 9.5% per annum.

h) Director and Executive Disclosures

Other Transactions with Directors and Specified Executives

2006

Nil

2005

On 1st July, 2004, the amount of the loan from a Director, Mr. P. F. Kelso to Drillsearch Energy Limited was \$214,884. This loan was repaid on 12th August, 2004. The loan carried an interest rate of 9.59% per annum. On 12th August, 2004, the Company loaned Mr. Kelso the sum of \$41,656 on the same interest terms that he had made loans to the Company. Various other amounts were loaned to Mr. Kelso. However, by 30th June, 2005, all of the money had been repaid. The loan to Mr. Kelso carried a variable interest rate. From 12th August, 2004, until 7th March, 2005, it was 9.59% per annum and from then until the final repayment it was 9.84% per annum.

Amounts Recognised as Expense

	2006 \$	2005 \$
Interest	-	2,296

Amounts Recognised as Income

	2006 \$	2005 \$
Interest	-	5,659

As at 30th June, 2006, the balance due to a personally related entity of Mr. Kelso's was \$374 (2005: \$374)

	Consolidated		Chief Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Amounts received or due and receivable by chief entity auditors for:				
- auditing the accounts	36,000	33,130	21,427	33,130
- other services	-	-	-	-
Amounts received or due and receivable by other auditors for:				
- auditing the accounts	37,842	55,962	3,392	3,972
- other services	20,500	28,533	4,000	-

25. Auditors Remuneration

Amounts received or due and receivable by chief entity auditors for:

- auditing the accounts	36,000	33,130	21,427	33,130
- other services	-	-	-	-

Amounts received or due and receivable by other auditors for:

- auditing the accounts	37,842	55,962	3,392	3,972
- other services	20,500	28,533	4,000	-

26. Events Subsequent to Balance Date

Events Subsequent to Balance Date

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

- Since 30th June, 2006, the following wells have been drilled at Tintaburra Block, ATP.299P:

WELL	DRILL DATE	STATUS
Gimboola 4a	1/07/2006	On-line Oil Producer
Bilberry 1	1/07/2006	Plugged & Abandoned
Endeavour 9	4/07/2006	Cased & Suspended Oil Producer
Loganberry 1	6/07/2006	Plugged & Abandoned
Talgeberry 12	13/07/2006	Cased & Suspended Oil Producer
Endeavour 7	15/07/2006	Cased & Suspended Oil Producer
Talgeberry 13	19/07/2006	On-line Oil Producer
Minni-Ritchi 1	20/07/2006	Cased & Suspended Oil Producer
Endeavour 6	23/07/2006	Cased & Suspended Oil Producer
Talgeberry 9	23/07/2006	Cased & Suspended Oil Producer
Endeavour 10	29/07/2006	Cased & Suspended Water Injector
Talgeberry 10	30/07/2006	On-line Oil Producer
Whynott 1	31/07/2006	Plugged & Abandoned
Talgeberry 11	5/08/2006	Cased & Suspended Oil Producer
Reliance 1	8/08/2006	Cased & Suspended Water Injector
Talgeberry 14	11/08/2006	Cased & Suspended Oil Producer
Cranstoun 3	16/08/2006	Cased & Suspended Oil Producer
Cranberry 1	17/08/2006	Plugged & Abandoned
Cranstoun 4	22/08/2006	Cased & Suspended Oil Producer
Talgeberry 15	22/08/2006	Cased & Suspended Water Injector
Kooyong 1	29/08/2006	Cased & Suspended Oil Producer
Talgeberry 16	3/09/2006	Plugged & Abandoned
Endeavour 18	5/09/2006	Cased & Suspended Oil Producer
Mulberry 25	10/09/2006	Currently Drilling

NOTE:

Cased & Suspended Oil Producer means cased and suspended as a future oil production well
Cased & Suspended Water Injector means cased and suspended as a future water injection well

- In August, 2006, the parent entity committed to an additional 20 well drilling programme at Tintaburra at a cost of \$5.45 million over an 8 month period.
- On 1st September, 2006, the chief entity signed a term sheet for an \$18 million facility to fund its share of the Tintaburra Oil Development Project. It is anticipated that the final loan documentation will be executed by the end of September, 2006, with draw downs against the facility occurring approximately seven (7) business days later.

27. Amounts Payable and Receivable in Foreign Currencies

	Consolidated		Chief Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
The Australian dollar equivalents of amounts payable or receivable in foreign currencies, calculated at year end exchange rates, are as follows:				
Amounts payable – current	1,316,882	1,059,454	20,440	1,670,143
Amounts receivable – current	1,279,210	970,762	324,702	286,730

28. Statement of Operations by Segments

Business Segments

The Consolidated Entity is organised into the following business segments:

Oil and Gas

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

Primary Reporting - Business Segments 2006 - Current Period

	Oil & Gas	Other	Consolidation
	\$	\$	\$
Revenue	12,289,197	193,503	12,482,700
Segment result profit/(loss)	4,067,050	(91,676)	3,975,374
Net profit/(loss) after income tax expense	4,067,050	(87,969)	3,979,081
Segment assets	36,314,576	950,815	37,265,391
Segment liabilities	7,567,192	-	7,567,192
Acquisitions of property, plant and equipment and other non current segment assets	13,553,633	-	13,553,633
Depreciation and amortisation expenses	679,744	-	679,744
Exploration expenses written off	984,662	-	984,662
Other non cash expenses	-	20,158	20,158

Secondary Reporting - Geographical Segments 2006 – Current Period

	Australia	Canada	Papua New Guinea	Consolidated
	\$	\$	\$	\$
Revenue	7,295,528	5,187,172	-	12,482,700
Assets	22,980,063	13,858,279	427,049	37,265,391

Primary Reporting - Business Segments 2005 – Previous Period

	Oil & Gas \$	Cattle (1) \$	Other \$	Consolidation \$
Revenue	7,445,952	215,876	278,521	7,940,349
Profit on disposal of assets	-	575,384	-	575,384
Segment result profit/(loss)	1,596,238	540,112	(717,101)	1,419,249
Income tax recovery	18,030	-	-	18,030
Net profit/(loss) after income tax expense	1,614,268	540,112	(717,101)	1,437,279
Segment assets	22,401,458	-	332,825	22,734,283
Segment liabilities	3,433,661	-	-	3,433,661
Acquisitions of property, plant and equipment and other non current segment assets	5,052,524	-	148,220	5,200,744
Depreciation and amortisation expense	619,472	-	-	619,472
Exploration written off	443,453	-	-	443,453
Other expenses provisions	24,651	-	236,132	260,783
Unrealised foreign exchange gains/(losses)	(2,796)	-	36,022	33,226

Note 1:

Cattle Production

During the year ended 30th June, 2005, cattle operations previously carried on by a controlled entity were discontinued and all land and cattle were sold.

Secondary Reporting - Geographical Segments 2005 – Previous Period

	Australia \$	Canada \$	Papua New Guinea \$	Consolidated \$
Revenue	5,109,447	2,830,902	-	7,940,349
Assets	11,635,032	10,692,198	407,053	22,734,283

29. Related Party Disclosures

Directors and Specified Executives

Chief Entity

Disclosures relating to Directors of the chief entity and specified Executives are set out in Note 25.

Controlled Entities

During the financial year P. F. Kelso, and G. C. Reveleigh were Directors of the Controlled Entity, Circumpacific Energy Corporation. P. F. Kelso was a Director of the Controlled Entities, Drillsearch Energy (Canada) Inc., TransOceanic Securities Pty Limited, Drillsearch Energy (WA) Limited and Drillsearch Energy (PNG) Limited.

Related Party Transactions

Apart from the details disclosed in this Note and Note 24, no Director has entered into a material contract with the chief entity or the consolidated entity 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 entity.

Other Transactions with the Chief Entity or its Controlled Entities

Chief Entity

- Mr. P. F. Kelso is a Director of a company, which has contracted to provide management, legal and geological services to the chief entity. The total payments under this contract are included in Note 25 – Directors' and Executives' Remuneration.
- During the financial year the chief entity charged the controlled entity, Circumpacific Energy Corporation, \$ NIL (2005: \$53,045) in management fees.
- During the financial year, Circumpacific Energy Corporation paid interest of \$277,248 to Drillsearch Energy (Canada) Inc. (2005: \$263,519)

- d) During the year Circumpacific Energy Corporation charged \$48,662 (2005: \$44,558) in overhead recovery fees to Drillsearch Energy (Canada) Inc.
- e) During the year Circumpacific Energy Corporation received \$211,062 (2005: \$NIL) from the chief entity by way of contribution to litigation settlement costs.
- f) Amounts payable to and receivable from Directors and their Director related entities at balance date are as follows:

	Consolidated		Chief Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current Receivables				
- Mineral Ventures & Resources N.L.	22,983	22,983	22,983	22,983
Current Payable				
- P. F. Kelso	374	374	374	374

Controlled Entities

Details of interests in wholly owned entities are set out in Note 23. Details of dealings with these entities are set out below:

Drillsearch Energy (Canada) Inc.

At 30th June, 2006, this Controlled Energy owed the chief entity (head office) \$1,693,308. As at 30th June, 2006, the chief entity (Calgary branch) owed this controlled entity \$1,894,720. (2005: The chief entity (Calgary branch) owed the controlled entity \$1,660,550) The amount is non-interest bearing and at call.

TransOceanic Securities Pty Limited

At 30th June, 2006, this controlled entity owed the chief entity \$473,242 (2005: \$136,724). The amount is non-interest bearing and at call.

Drillsearch Energy (PNG) Limited

At 30th June, 2006, this controlled entity owed the chief entity \$619,172 (2005: \$618,061). The amount is non-interest bearing and at call.

Kun Yick International Limited

At 30th June, 2006, the chief entity owned 100% of the capital of this subsidiary. As at 30th June, 2006, this controlled entity owed the chief entity \$390,891 (2005: \$1,221,160). The amount is non-interest bearing and at call.

Partly Owned Controlled Entities

Details of interest in partly owned entities are set out at Note 23. Details of dealings with these entities are set out below:

Circumpacific Energy Corporation

As at 30th June, 2006, Circumpacific Energy Corporation had the following non-transferable share purchase options to directors, officers and employees, outstanding: Nil

	Consolidated	
	2006	2005
	\$	\$
30. Earnings Per Share		
Basic earnings per share (cents per share)	0.01	0.00
Diluted earnings per share	0.01	0.00
Weighted average number of ordinary shares on issue used as the denominator in calculating basic earnings per share		
- Basic EP's	351,755,710	306,246,521
- Diluted EP's	351,755,710	309,163,402

31. Notes to the Statement of Cash Flows

		Consolidated		Chief Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
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 at Bank	5	3,254,086	3,108,379	2,436,964	2,720,895
		<u>3,254,086</u>	<u>3,108,379</u>	<u>2,436,964</u>	<u>2,720,895</u>

b) Reconciliation of Net Profit/(Loss) After Income Tax to Net Cash Provided by/ (used in) Operating Activities

Net profit/(loss) after income tax		3,979,081	1,437,279	3,167,791	1,433,136
Depreciation		276,399	235,695	83,230	81,302
Amortisation		403,345	383,778	103,247	115,418
Exploration expenses written off		984,662	443,452	1,000	675
Bad debts written off		20,677	-	20,677	-
Increment on investments		(39,979)	-	(40,520)	-
Foreign exchange (gain)/loss		94,139	33,226	94,139	(2,796)
Movement in other provisions		(9,402)	192,854	(5,694)	173,142
Profit on sale of fixed assets		(17,485)	(575,384)	(17,485)	(1,162)
Profit on sale of shares					
(Profit)/loss on sale of shares		(36,367)	(37,082)	(36,367)	(37,082)
(Increase)/decrease in receivables		(256,434)	(369,371)	(131,107)	(258,769)
(Increase)/decrease in other receivables		261,874	-	284,115	-
(Decrease)/increase in creditors		(238,322)	(1,012,031)	(349,101)	(1,015,220)
(Increase)/decrease in inventories		(383,164)	76,211	(281,114)	(98,674)
(Increase)/decrease in deferred tax		-	(18,031)	-	-
Net cash provided by/(used in) operating activities		<u>5,039,024</u>	<u>790,596</u>	<u>2,892,811</u>	<u>389,970</u>

c) Financing Facilities

All financing arrangements are disclosed at Note 15 – Financing Arrangements

Directors' Declaration

The Directors of Drillsearch Energy Limited declare that:

- a) the financial statements and notes set out on pages 13 to 41 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 entity's financial position as at 30th June, 2006 and of their performance, as represented by the results of their cash flows, for the financial year ended on that date; and
- b) 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 chief executive officer and chief financial officer required by Section 295A of the *Corporations Act 2001*.

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

PHILIP F. KELSO
MANAGING DIRECTOR

GRAHAM REVELEIGH
DIRECTOR

DATED at Sydney this 29th day of September, 2006



DFK - Richard Hill

CHARTERED ACCOUNTANTS &
BUSINESS ADVISERS

Directors:
RICHARD L.S. HILL
B.Com. FCA

RICHARD O. COLLINGE
A.C.A. (NZ)

Associate Director:
DAVID G. SHARP
B.Com. A.C.A

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Independent Audit Report to the members of Drillsearch Energy Ltd

We have audited the financial report of Drillsearch Energy Ltd for the financial year ended 30 June 2006 as set out on pages 2 – 42.

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statement of cash flows, accompanying notes to the financial statements and the directors' declaration for the Company for the year ended 30 June 2006.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives, required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in the directors' report.

The Company's directors are responsible for the preparation and true and fair presentation of the financial report and the Remuneration Report in accordance with the *Corporation Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First-time adoption of Australian equivalents to International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures in the directors' report.

Audit approach

We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding

of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.
The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed the applicable independence requirements of Australian professional and ethical pronouncements and the Corporations Act 2001. In accordance with ASIC Class order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration as set out in the financial report has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion:

- (1) the financial report of Drillsearch Energy Ltd is in accordance with:
 - (a) 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 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) other mandatory professional reporting requirements; and
- (2) the remuneration disclosures that are contained in the directors' report comply with Australian Accounting Standard ASB 124 Related Party Disclosures.

DFK Richard Hill Pty Ltd

Richard Hill
Partner

Sydney
Dated: 29 September 2006



DFK - Richard Hill

CHARTERED ACCOUNTANTS &
BUSINESS ADVISERS

Directors:
RICHARD L.S. HILL
B.Com. FCA

RICHARD O. COLLINGE
A.C.A. (NZ)

Associate Director:
DAVID G. SHARP
B.Com. A.C.A.

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Auditors Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Drillsearch Energy Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006, 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

DFK Richard Hill Pty Ltd

Richard Hill
Partner

Sydney
Dated: 29 September 2006

Additional Information Required by the Listing Rules of the Australian Stock Exchange

A Analysis of Equity Security Holders as at 26th September, 2006

1 Distribution of Equity Securities

a) Analysis of numbers of holders of fully paid ordinary shares:

<i>No. of Securities</i>	<i>No. of Shareholders</i>
1- 1,000	59
1,001 – 5,000	404
5,001 – 10,000	392
10,001 – 100,000	1,275
100,001 and over	<u>473</u>
	2,603

b) There were 517 holders of less than a marketable parcel of 6,173 ordinary shares.

c) The percentage of the total holding of the 20 largest holders of ordinary shares was 37.41 % of issued capital.

d) The total number of fully paid ordinary shares on issue at 26th September, 2006, was 403,393,696.

2 Twenty Largest Shareholders – As at 26th September, 2006 (see sub-paragraph (c) above).

The names of the 20 largest shareholders are listed below:

		<i>Number of Shares</i>	<i>% Held to Issued Capital</i>
1	Mr. D. A. & Mrs. K. Dixon	23,600,000	5.85
2	HTH Trading Pty Limited	23,300,000	5.78
3	ANZ Nominees Limited	13,841,281	3.43
4	Mineral Ventures & Resources N.L.	12,850,232	3.19
5	Commission Advance Company Pty Limited	10,253,581	2.54
6	Invia Custodian Pty Limited	9,652,872	2.39
7	Inter Park Limited	7,450,000	1.85
8	Pemberley Resources Pty Limited	6,965,004	1.73
9	Lucy Holt	6,116,667	1.52
10	Fortis Clearing Nominees Pty Limited	5,605,172	1.39
11	Barry Sheedy & Associates	5,212,765	1.29
12	Level 1 Pty Limited	4,374,000	1.08
13	TransOceanic Nominees Pty Limited	4,094,929	1.02
14	Dane Pastoral Company Pty Limited	3,407,068	0.84
15	Newmek Investments Pty Limited	3,050,000	0.76
16	Kizogo Pty Limited	2,550,000	0.63
17	Pieter Hoekstra & Ruth Hoekstra	2,345,000	0.58
18	J. P. Morgan Nominees Australia	2,146,594	0.53
19	T. J. Sheedy & R. C. Sheedy	2,090,000	0.52
20	Perpetual Trustee Company Limited	<u>2,010,000</u>	<u>0.49</u>
Total		150,915,165	37.41%

3 Substantial Shareholders

The names of substantial shareholders as disclosed in substantial shareholders notices given to the company are:

Number and Percentage of Ordinary Shares in Which Interest Held

Name	Number	%
1 HTH Trading Pty Limited & Associates	23,300,000	
D. A. Dixon & K. Dixon	23,600,000	
Darmal Pty Limited	1,000,000	
D. Scanlen	12,279,295	
Taylor Day Pty Limited	<u>960,000</u>	
	<u>61,139,295</u>	15.16
2 Mineral Ventures & Resources N.L. & Associates	34,870,870	8.24

B 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.

C Secretary

The name of the Secretary to the Chief Entity is Michael Lidster Hutt.

D There is No Current on Market Buy Back

Schedule of Petroleum Tenements

<i>Exploration/Production Title</i>	<i>Approx. Area (sq. km/ha)</i>	<i>Operator</i>	<i>Current Interest</i>
<u>AUSTRALIA</u>			
Drillsearch Energy Limited			
Queensland			
PL.5 (Pickanjinie No. 10)	N/A	Santos Limited	75%
ATP.259P & PPL's (Naccowlah)	3,045 sq. km	Santos Limited	2%
ATP.299P & PPL's (Tintaburra)	2,440 sq. km	Santos Limited	10%
ATP.783P (Chandos)	1,610 sq. km	Drillsearch Energy Limited	100%
ATP.823P (Surat)	682 sq. km	Drillsearch Energy Limited	100%
Western Australia			
WA.318P	3,345 sq. km	Drillsearch Energy Limited	100%
WA.13R	135 sq. km	Drillsearch Energy Limited	100%
WA.352P	2,100 sq. km	Drillsearch Energy Limited	100%
Northern Territory			
NT/RL.3	68 sq. km	Drillsearch Energy Limited	100%
<u>PAPUA NEW GUINEA</u>			
PPL.244 (PPL.200)	2,721 sq. km	Talisman Energy	5%
<u>CANADA</u>			
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%
Ricinus	a) 256 ha b) 1,536 ha	Circumpacific Energy Corporation	100%
Worsley	2,048 ha	Esprit Exploration Ltd.	GORR
Lambert	256 ha	Enterra Energy Corp.	12.5%
Talbot Lake	256 ha 5,632 ha	Talisman Energy Inc. Energy Venture Inc.	9.8% 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 62.7% owned subsidiary of Drillsearch Energy Limited as at 30th June, 2006.
- (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 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
M\$CAD	thousand dollars Canadian
M\$A	thousand dollars Australian