

24 July 2009

## **Quarterly Report Activities for the Quarter ended 30 June 2009**

### **Company Highlights**

#### **Financial**

- Cash management has improved significantly.
- Cash at 30 June 2009 - \$7.75M and no debt – adequate to meet all existing project commitments.  
Note: Circumpacific Energy Resources (CER), Drillsearch's 79.5% owned Canadian subsidiary, has not yet reported its quarterly results to the TSX. Accordingly, the reported cash balance of \$7.75M consists of the cash balance of Drillsearch as at 30 June 2009 plus the cash balance of CER as at 31 May 2009. Drillsearch will provide ASX with a supplementary quarterly report as soon as CER reports its quarterly results.
- Australian sales revenue for the June Quarter of \$1.57M was down compared with \$1.95M in the previous Quarter.
- Canadian sales revenue of \$0.68M for the two months ended 31 May 2009 compared with \$0.93M for the full three months in the previous Quarter.

#### **Production**

- Australian oil production for the June Quarter of 30,675 bbls (11% better than the March Quarter) and total production for the full year was 118,601 bbls.
- Canadian oil and gas production of 11,548 boe for the Quarter represents two months production only to May 2009 as CER has not yet reported its quarterly results to the TSX.

#### **Development**

- Contingent resources for the gas discoveries in PEL 106 were announced during the June Quarter marking an important milestone on the path towards commercialisation.
- Development activities at Naccowlah and Tintaburra during the Quarter were focussed on cost reduction and production optimisation during a period of low oil prices.

#### **Exploration**

- In PEL 91, site construction and planning activities were carried out in preparation for drilling the Chiton-1 and Marino-1 wells, scheduled to commence in August 2009. The drilling program will target mean recoverable un-risked oil reserves totalling 3.5 million barrels with P10 upside potential totalling 7.8 million barrels.
- Final processed data was received in May 2009 from the newly acquired 2D seismic data in offshore Carnarvon block (WA-352-P) where Drillsearch is targeting potential prospective resources in the range of 50-300 million barrels of oil.
- Interpretation of recently reprocessed seismic data was completed in June 2009 for Gippsland Basin Blocks VIC/P63, VIC/P64 and T/46P, confirming the exploration play on the southern margin of the basin targeting prospective resources in the range of tens to hundreds of millions of barrels of oil.

## Corporate

- Beach Petroleum announced a takeover bid for Drillsearch on 5 May 2009. The Directors of the Company continue to recommend that shareholders reject the opportunistic and inadequate offer.
- Board restructure, including appointment of Brad Lingo as the new Managing Director of the Company.
- Takeover offer for 3D Oil lapsed.

## Financials

Description	Units	Full Year 2007-2008	Full Year 2008-2009	March 2009 Quarter	June 2009 Quarter	Quarter Change	Quarter Change %
<b>Oil &amp; gas production</b>							
Australia	boe	140,393	118,601	27,596	30,675	3,079	11%
Canada	boe	87,007	61,566	16,397	11,548	N/A	N/A
Total Production	boe	227,400	180,167	43,993	42,223	N/A	N/A
<b>Oil &amp; gas revenues</b>							
Australia	A\$	15,183,985	9,325,053	1,952,214	1,572,367	-379,847	-19%
Canada	A\$	7,756,405	4,627,232	925,385	684,535	N/A	N/A
Total Sales Revenue	A\$	22,940,390	13,952,285	2,877,599	2,256,902	N/A	N/A
<b>Production expenditure</b>							
Australia	A\$	5,292,355	5,627,681	982,379	1,057,259	74,880	8%
Canada	A\$	1,392,992	2,293,369	488,185	291,142	N/A	N/A
Total Production Expenditure	A\$	6,685,347	7,921,050	1,470,564	1,348,402	N/A	N/A
<b>Exploration &amp; development expenditure</b>							
Australia	A\$	8,203,233	8,851,510	2,155,860	1,075,990	-1,079,870	-50%
Canada	A\$	266,633	617,977	47,287	41	N/A	N/A
Total Expl & Dev Expenditure	A\$	8,469,866	9,469,487	2,203,147	1,075,949	N/A	N/A
<b>Financials</b>							
Cash & Cash Equivalents	A\$	11,914,442	7,753,418	8,130,130	7,753,418	N/A	N/A
Debt	A\$	None	None	None	None	-	-
Hedging	A\$	None	None	None	None	-	-
<b>Capital</b>							
Issued Shares	# millions	1,116.14	1,728.43	1,667.83	1,728.43	61	4%
Unlisted options	# millions	None	45.50	57.50	45.50	-12.00	-21%

\* Boe stands for barrels of oil equivalent.

\* Canada numbers have been restated as Full year 2007-2008 was shown at 100% whilst current year information was shown at Drillsearch's equity interest of 79.5%.

\* Canada Production, Revenue, Production expenditure, Exploration & development expenditure and Cash & Cash equivalents are now shown at 100%. Drillsearch's interest in CER is 79.5% and is accounted for on an equity basis.

\* CER has not yet reported its quarterly results to the TSX as such Canada Production, Revenue, Production expenditure, Exploration & development expenditure and Cash & Cash equivalents shown above reflect 31 May 2009 balances or the two months to May total.

## **Cash balance**

The Board of Drillsearch is pleased with the Company's healthy cash position, which reflects a significant improvement in net cash outflow compared with the two most recent Quarters ended 31 March 2009 and 31 December 2008. Drillsearch's cash balance of \$7.75M only marginally reduced during the Quarter, mainly due to capital payments related to exploration activities and lower oil and gas revenue. Actual cash payments for exploration, appraisal and development expenditure for the Quarter were A\$1.08M (in contrast to the March Quarter of A\$2.20M).

Drillsearch's cash position demonstrates that the Company's cash resources are being managed judiciously. The exploration and development expenditure undertaken in the Quarter resulted in the achievement of several significant project milestones in the Cooper Basin. The healthy cash position of the Company would have been even stronger except for the costs associated with representing shareholders' interests in relation to Beach Petroleum's takeover bid.

Consistent with its recent statements, Drillsearch has sufficient cash resources to meet its funding requirements for all of its existing capital commitments. This includes the spudding of Chiton-1 and Marino-1 in PEL 91 scheduled for Aug-Sep 2009, extended production tests for the Brownlow-1 and Canunda wells in PEL 106 before the end of 2009, as well as a range of other ongoing initiatives in its Cooper Basin projects. Further details of these exciting exploration and development initiatives are outlined in this quarterly report.

The quarterly report corrects the inaccurate views expressed by Beach Petroleum in relation to Drillsearch's cash position.

## **Oil price**

Drillsearch's Australian operations have achieved a quarterly average realised oil price of A\$72.87/bbl as compared with A\$75.84/bbl last Quarter. For the month of June 2009, the average realised oil price was A\$91.10/bbl as compared with A\$73.61/bbl in March 2009. The full year weighted average realised oil price was A\$93.24/bbl.

## **Production**

Australian oil production for the June Quarter of 30,675 bbls was 11% up on the March Quarter. Australian production for the full year was 118,601 bbls.

Canadian oil and gas production for the two months to 31 May 2009 from CER was 11,548 boe. Year-to-date Canadian production to May 2009 was 61,566 boe.

## **Development**

### **Naccowlah Block (ATP 259P) – Cooper Basin QLD (Drillsearch 2%)**

As a result of the cancellation of the Weatherford drilling contract in March this year, no further development drilling has taken place at Naccowlah and Tintaburra. Development activities have focussed on completing and connecting recent discoveries for production and on production optimisation and cost reduction activities in a low oil price environment.

### **Commercialisation of gas discoveries in PEL 106**

Reservoir mapping of the gas discoveries in PEL106 was completed during the previous Quarter using the Spinel 3D seismic survey data. Volumetric estimates of the contingent resources for each accumulation were calculated for use in gas commercialisation discussions with potential buyers. These contingent resources were endorsed by independent experts Gaffney, Cline and

Associates and released to the market in a detailed report in June 2009, highlighting the substantial resource potential in this licence. Preparations are now in progress to flow-test the Brownlow-1, Canunda-1, Paprika-1 and Cadenza-1 in the coming months to further determine reserves and gas deliverability.

## **Exploration**

### **PEL 91 – Cooper Basin (Drillsearch 60%)**

The PEL 91 joint venture has approved the Chiton-1 and Marino-1 wells for drilling in Aug-Sept 2009. The high-grading of these two prospects to drillable status marks the culmination of several years' exploration effort within PEL 91 advanced most recently with data from the Modiolus 3D Seismic Survey. The drilling program will target mean recoverable un-risked oil reserves totalling 3.5 million barrels with P10 upside potential totalling 7.8 million barrels. The primary objective for both wells is the Namur sandstone that has proved to be a prolific oil producer in PEL 92 immediately south of PEL 91 in the oil fairway on the western margin of the Patchawarra Trough.

### **WA-352-P – Carnarvon Basin, Offshore WA (Drillsearch 100%)**

Final processed seismic data was received in May 2009 for the 300km of newly acquired 2D seismic data in offshore Carnarvon block (WA-352-P). In January 2009, Drillsearch conducted a proprietary seismic survey designed to delineate a number of structural leads targeting potential oil reserves in the range of 50-300 mmbbls updip to the Amulet-1 oil discovery. Preliminary screening of the new data appears to confirm the prospectivity of the licence and detailed interpretation will commence shortly.

### **VIC/P63, VIC/P64 & T/46P – Gippsland Basin, VIC & TAS (Drillsearch 100%)**

Interpretation of the more than 4,000km of reprocessed 2D seismic data was completed during the June Quarter. A number of structural and stratigraphic prospects have been identified, confirming the play concept. Prospective Resource estimates range from 10-50 mmbbls in the structural traps to almost a billion barrels in the largest stratigraphic trap. Planning has commenced to acquire 1,500km of new 2D seismic data to delineate prospects for potential drilling. Drillsearch has joined with several other Gippsland Basin operators to mobilise a seismic vessel to the area in Q1 2010 to carry out this program.

## **Corporate**

### **Beach Petroleum Limited**

On 5 May 2009, Drillsearch received notice of an off-market takeover bid from Beach Petroleum. The Offer comprises scrip consideration of one (1) Beach share for every 27 Drillsearch shares.

The Board is firmly of the view that Drillsearch has an exciting future, as highlighted by the recent strategic review. The directors of Drillsearch unanimously recommend that shareholders **reject** the highly opportunistic offer which significantly undervalues the potential of the Company.

### **Appointment of new Managing Director**

On 18 May 2009, the Company announced the appointment of Brad Lingo as its new Managing Director effective 15 June 2009. Brad has more than 25 years of oil & gas experience. He has been involved in all phases of oil & gas business and project development, mergers & acquisitions, financing and equity capital raising for both listed and private companies both in Australia and internationally.

### **Shareholder meeting**

A shareholder meeting was held on 10 June 2009 for the removal of each of the directors of the Company at that time. Russell Langusch and Peter Simpson resigned as directors prior to the resolutions seeking their removal with Jim McKerlie, Beng Kai Choo and Peter Wicks re-elected as directors. Jim McKerlie has subsequently been appointed Chairman.

### **3D Oil Limited**

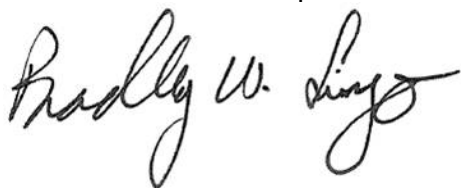
Drillsearch's takeover offer for 3D Oil Limited lapsed on 9 June 2009 and did not meet the minimum acceptance threshold of 50.1% of issued capital. Drillsearch no longer holds any relevant interest in 3D Oil.

Litigation in relation to the costs of the 3D Oil offer and the shareholder's meeting has previously been disclosed.

### **Competent Person Statement**

Information on the Reserves and Resources in this Quarterly Report is based on information compiled by Mr. Chris Carty, Chief Operating Officer and a full time employee of Drillsearch, who has given his consent as of the date of this Quarterly Report to the inclusion of this statement and that information in the form and the context in which they appear in this Quarterly Report.

For further information please contact:



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Or visit the website [www.drillsearch.com.au](http://www.drillsearch.com.au)

**About Drillsearch Energy Limited** (ASX: DLS), which listed on ASX in 1987, explores and develops conventional oil and gas projects. Drillsearch Energy merged with Great Artesian Oil and Gas (ASX: GOG) in 2008. The merged group has a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper/Eromanga Basins in South Australia and Queensland, as well as offshore exploration in the Carnarvon and Gippsland Basins. Drillsearch also has interests in PNG and Canada. The Company's focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, ensuring that any discoveries can be brought into production.