



# Drillsearch Energy Limited

## ASX RELEASE

### Quarterly Report Period Ended 30<sup>th</sup> June, 2007

(Abbreviations - See page 9)

#### **HIGHLIGHTS**

##### ***Record Petroleum Volumes and Revenue – Year to 30th June, 2007***

Drillsearch Energy Limited (“Drillsearch”) again achieved record petroleum production volumes and revenues in the twelve (12) months ended 30<sup>th</sup> June, 2007. Sales volumes and revenues with comparatives for the previous year are set out in Table 1.

*Table 1*

| <b>Drillsearch Group</b>    | <b>2007<sup>(1)</sup></b> | <b>2006</b>         |
|-----------------------------|---------------------------|---------------------|
| Sales Volume (BOE)          | 188,154                   | 150,900             |
| <b>Sales Revenues (A\$)</b> |                           |                     |
| - Australia                 | \$9,323,838               | \$7,102,025         |
| - Canada                    | \$5,362,835               | \$5,187,172         |
| <b>Total Group Sales</b>    | <b>\$14,686,673</b>       | <b>\$12,289,197</b> |

Note 1: Estimates subject to final audit adjustment.

##### ***Petroleum Volumes and Sales – 4<sup>th</sup> Quarter to 30th June, 2007***

- Drillsearch group sales in the 4<sup>th</sup> quarter were 50,967 BOE's (3<sup>rd</sup> Quarter: 47,519) but were again impacted by floods in SW Queensland and delays in tie-ins
- Comparative for with the previous quarter are set out in Table 2.

*Table 2*

| <b>Drillsearch Group</b>                | <b>4<sup>th</sup> Quarter Ended<br/>30<sup>th</sup> June, 2007</b> | <b>3<sup>rd</sup> Quarter Ended<br/>31<sup>st</sup> March, 2007</b> |
|-----------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------|
| Sales Volumes (BOE)                     | 50,967                                                             | 47,519                                                              |
| Group Sales Revenue<br>(A\$) Net of GST | \$4,281,693                                                        | \$3,552,603                                                         |

##### ***Cooper Oil Project – Drilling Success Continues***

- Drillsearch continued its successful oil drilling campaign under the Cooper Oil Project during the quarter. At Tintaburra 11 new wells were drilled of which 8 were cased and suspended as future oil producers or water injectors and 3 were P&A'd.
- The programme also continued in the Naccowlah Block where Drillsearch participated in 10 new wells, of which 6 were cased and suspended as future oil producers and 4 were P&A'd.

## **Bonaparte Gulf, WA**

- Esso Australia Resources Pty Limited, a subsidiary of ExxonMobil, farmed in to and agreed to pay 85% of the Marina 1 well costs for a 65% WI.
- Marina 1 timing has been advanced to mid September, 2007.
- Turtle/Barnett project advanced with extension of the leases. Drillsearch will conduct 3D seismic surveys to develop a potential 15 – 20 million bbls of oil in these fields.

## **A OPERATIONS – AUSTRALIA**

### **1. Australia – SW Queensland**

#### *1.1 Production Operations – SW Queensland*

Oil production continued in ATP.299P, Tintaburra and ATP.259P, Naccowlah Blocks. Drillsearch recorded oil sales during the quarter of 26,493 barrels, (Last quarter: 31,809 barrels) for total oil sales of A\$ 2,371,194 (Net of GST).

##### *1.1.1 ATP.299P Tintaburra Block Drillsearch - 10% Working Interest*

Drillsearch's oil sales from the Tintaburra Block decreased slightly during the quarter to 23,678 bbls (Last quarter: 28,750 bbls).

Production operations were again interrupted by flooding in May in SW Queensland. Capacity, however, increased with a number of tie ins.

#### *1.2 Development Operations – SW Queensland*

##### *1.2.1 Cooper Oil Project ("COP") – Tintaburra Block*

### **Drilling**

#### *Delineation and Development*

Oil delineation and development (including exploration) drilling continued during the quarter with the completion of 11 new wells. Of these wells 8 were cased and suspended as future oil producers or water injectors, 3 were P&A'd.

At the end of the quarter development drilling was continuing at the Talgeberry field.

#### Endeavour

- During the quarter the final 2 wells of the Endeavour (Phase 3) programme were completed and the balance of the programme was suspended pending reservoir optimisation investigations.
- Phase 3 established that there is a major stratigraphic oil pool at Endeavour extending 3 kms north to south and 5 kms east to west. Interpretation indicates that the pool may extend 7 kms or more east/west.
- Water injection with 3 wells at Endeavour field was continuing at the end of the quarter and was operating satisfactorily.
- The water injection results were encouraging.

- Re-mapping of 3D seismic indicated the existence of further stratigraphic traps in the Birkhead Formation immediately south of Endeavour, which may be addressed by drilling in 2008.

### Mulberry

- The 11 well drilling programme at Mulberry was completed and proved further extensions and in fills of the mid Birkhead reservoir unit. This drilling also commenced delineation of a stratigraphic trap in the upper Birkhead reservoir in the south/west section of the field.
- The upper Birkhead pool is at the same stratigraphic horizon as in the Endeavour pool. The results of this drilling are being assessed.
- At the end of the quarter planning was underway for an additional 4 well development drilling programme at Mulberry. This drilling will be “pad drilling” i.e. the 4 new wells will be drilled from 1 drilling pad (or lease) within the field. This will reduce drilling costs. It is planned that this drilling will further develop the mid Birkhead reservoir.

### *Exploration*

During the quarter a 7 well delineation and NFE programme was undertaken to further test and develop a number of known oil pools in the Block as follows:

- Ipundu North 12 encountered oil at a number of levels including the Hutton Formation, which will be developed.
- Oil was encountered and cased in Takyah 4 and Takyah 2 at the Takyah field (to the south/west of Tarbat). Takyah 2 encountered the mid Birkhead reservoir zone at an equivalent level to that at Mulberry field.
- West of Takyah in the Kooroopa Field, Kooroopa 3 encountered a net 14 metres of oil pay in 2 zones and this potentially important discovery is being further assessed.
- Kooroopa 2 and Enoggara 1 in this programme were, however, P&A'd without encountering commercial oil. 1 well was deleted from the programme.
- The success at Takyah field has generated an additional development / delineation well, Takyah 5, which has commenced drilling.

### *Drilling Summary*

Details of drilling results are progressively released to the ASX as Weekly Drilling Summaries and these summaries enclose maps showing well locations. (See Maps: ASX Release 8<sup>th</sup> September, 2006).

A summary of the wells completed from 1<sup>st</sup> April, 2007 to 30<sup>th</sup> June, 2007, is set out in Tables 3 & 4 below:

Table 3 – Tintaburra

| Well            | Operations | Type        | Status as at 30 <sup>th</sup> June, 2007 | On line | Working Interest |
|-----------------|------------|-------------|------------------------------------------|---------|------------------|
| Endeavour 29    | New Well   | Delineation | C&S Injector                             | -       | 10%              |
| Endeavour 37    | New Well   | Delineation | P&A                                      | -       | 10%              |
| Ipundu North 12 | New Well   | Delineation | C&S Producer                             | -       | 10%              |
| Takyah 4        | New Well   | Delineation | C&S Producer                             | -       | 10%              |
| Kooroopa 3      | New Well   | Delineation | C&S Producer                             | -       | 10%              |
| Talgeberrry 22  | New Well   | Delineation | C&S Producer                             | -       | 10%              |
| Kooroopa 2      | New Well   | Delineation | P&A                                      | -       | 10%              |
| Takyah 2        | New Well   | Delineation | C&S Producer                             | -       | 10%              |
| Talgeberrry 19  | New Well   | Delineation | C&S Producer                             | -       | 10%              |
| Enoggara 1      | New Well   | NFE         | P&A                                      | -       | 10%              |
| Talgeberrry 17  | New Well   | Delineation | C&S Producer                             | -       | 10%              |

Table – 4 Naccowlah

| Well               | Operations | Type      | Status as at 30 <sup>th</sup> June, 2007 | On line | Working Interest |
|--------------------|------------|-----------|------------------------------------------|---------|------------------|
| Jackson South 10   | New Well   | Appraisal | C&S Producer                             | -       | 2%               |
| Tostada 1          | New Well   | NFE       | P&A                                      | -       | 2%               |
| Jackson South 11   | New Well   | Appraisal | C&S Producer                             | -       | 2%               |
| Jalepeno 1         | New Well   | NFE       | P&A                                      | -       | 2%               |
| Graham 2           | New Well   | Appraisal | C&S Producer                             | -       | 2%               |
| Fajita 1           | New Well   | Appraisal | P&A                                      | -       | 2%               |
| Wilson 9           | New Well   | Appraisal | C&S Producer                             | -       | 2%               |
| Bogala Central 1   | New Well   | NFE       | C&S Producer                             | -       | 2%               |
| Nuata East 1       | New Well   | NFE       | P&A                                      | -       | 2%               |
| Naccowlah South 16 | New Well   | Appraisal | C&S Producer                             | -       | 2%               |

\*\* NFE – Near Field Exploration; C&S Injector – cased and suspended pending completion as a water injection well; C&S Producer – cased and suspended pending completion as a oil production well; P&A – plugged and abandoned

### **Surface Infrastructure**

Installation of surface production infrastructure including power lines, fluid lines, PCP pumps and injection wells continued during the quarter but programmes were rain affected. After the end of the quarter construction of the 135 km oil pipeline from the Tintaburra Block to the Jackson Oil Facility in the Naccowlah Block was completed at a cost of approximately \$38 million. Drillsearch owns a 10% interest in the pipeline.

The operator commenced inserting oil into the line on 22<sup>nd</sup> July, 2007. The completion of this line will substantially improve oil delivery from Tintaburra Block without interruption due to rain and reduce operating costs. The joint venture is seeking opportunities to transport oil on behalf of producers outside the Tintaburra Block.

### **Forward Programme - 2007**

#### Production Projection Revised Down

Drillsearch's anticipated share of production from the Tintaburra Block for calendar 2007 will be around 120,000 barrels or 110,000 barrels lower than anticipated in early 2007. Pressure maintenance by water injection at Endeavour and Mulberry fields is being monitored and Drillsearch is optimistic that its current conservative estimates will be exceeded. The results of this pressure maintenance appear positive but it is still "early days".

Drillsearch's share of oil production from its SW Queensland joint venture interests, will be approximately 140,000 bbls in calendar 2007.

### Reserves

The successful COP drilling increased Drillsearch's 2P reserves to 2.59 barrels in the year to 31<sup>st</sup> December, 2006.

Further drilling this year has continued at a high success rate (see Table 3 and 4) and 2P reserves in SW Queensland should further increase exclusive of any potential discovery in the Bonaparte Gulf.

### Further Drilling -Development

The 2007 Tintaburra programme has been reduced. Now that the 5 well Talgeberry development programme is complete, only a further 5 wells will be drilled this year. That drilling is expected to be completed in September, 2007.

Planning for additional development and exploration drilling within the Block is only in the early planning stages. The current best estimate for 2008 drilling is that potentially 25 new wells will be drilled (2.5 net to Drillsearch).

#### 1.3 ATP.259P Naccowlah Block *Drillsearch - 2% Working Interest*

Drillsearch commenced participation in this part of the Cooper Oil Project in the Naccowlah Block in the March quarter. Excellent results have been achieved in several wells, including Jackson South 11 and at Naccowlah West. As a result the programme has been expanded and an additional 4 delineation wells are planned at Jackson South.

Drillsearch's share of production volumes from the Block should be around 20,000 bbls for the calendar year.

#### 1.4 ATP.783P ("Chandos Block") *Drillsearch - 100% Working Interest*

The formal farm in agreement with Santos Limited was signed and Santos is advancing native title negotiations with the aim of having them completed around November, 2007.

## **2. Australia – East Queensland**

#### 1.2 ATP.823P – Surat Basin *Drillsearch – 100% Working Interest*

Drillsearch continued compilation of the seismic database and geoscientific studies.

#### 1.3 Pickanjinie No. 10 Well - PL 5, Queensland *Drillsearch – 75% Working Interest in the Well*

The well continues to produce sales gas.

### 3 Australia – Western Australia (WA)

#### 3.1 Southern Bonaparte Gulf, Offshore WA

##### 3.1.1 WA.318P

###### - Drillsearch - 100% Working Interest – Operator

On 14<sup>th</sup> May, 2007 Drillsearch announced that it had reached agreement with Esso Australia Resources Pty Ltd, a subsidiary of ExxonMobil Australia Pty Ltd ('ExxonMobil') to drill the offshore Marina 1 well in WA.318P ("the Permit").

The well will be drilled on the Marina Prospect. It will be drilled with the new Premium Drilling "Wilcraft" jack up rig, which is currently operating in the North Carnarvon Basin.

The Marina Prospect was identified on seismic surveys undertaken by Drillsearch followed by extensive geoscience work by its technical team.

The material terms of Drillsearch's agreement with ExxonMobil are:

- ExxonMobil agreed to pay 85% of the Marina 1 well costs to earn a 65% working interest ("interest") in the Permit. At that point ExxonMobil will become the operator of the Permit.
- Drillsearch will contribute 15% of the well costs and retain a 35% interest.
- ExxonMobil and Drillsearch will co-operate in regional geoscience studies.

The Marina Prospect has potential for 235 mmbbls of oil in place. A discovery in Marina 1 will catapult Drillsearch into the middle rank of Australia petroleum companies with a 30% to 35% interest in potentially 40 to 50 mmbbls of reserves.

During the quarter, Drillsearch continued detailed planning for the Marina 1 well.

Site survey drilling and geophysics is about to commence and Marina 1 is expected to spud around mid September, 2007.

##### 3.1.2 Southern Bonaparte Gulf - Turtle/Barnett, WA13R – NT/RL3 – Appraisal - Drillsearch – 100% - Operator

During the quarter Drillsearch obtained extensions of the retention leases covering the Turtle/Barnett project. The leases are estimated to hold approximately 90 million bbls of OOIP in several zones. The project has potential to delineate a recoverable resource of 15 to 20 million barrels.

With lease extensions in place the forward programme for Turtle/Barnett has commenced with reprocessing of the entire seismic data set underway. This reprocessing will generate a fully integrated seismic data set and lay the ground work for 3D seismic surveys later this year and in early 2008. It is hoped these surveys will generate an appraisal drill location to be drilled in September 2008.

To facilitate this drilling appraisal, Drillsearch has committed the Wilcraft rig to drill one (1) well at Turtle/Barnett. It has an option on the rig to drill a follow up well.

The option well will be available to drill an appraisal well in the event of a discovery at Marina 1.

The forward programme will be:

- Complete seismic reprocessing
- 100 sq. kms of new 3D seismic to define the Messner and Turtle 1 up-dip prospects.
- Hydrographic surveys
- Plan for appraisal drilling in the 3<sup>rd</sup> quarter 2008.

3.2 Carnarvon Basin - WA.352P  
*Drillsearch 100% Operator*

Drillsearch continued re-processing 400 line kms of seismic data and has identified a potential prospect up dip from the Amulet oil discovery.

Following the success of Amulet 1, Tap Oil Limited and Santos Limited have commenced a new well named Totem 1 approximately 4 kms north/east of Amulet. Success in Totem 1 will further enhance the prospectivity of WA.352P.

**4 Papua New Guinea**

PPL.224 - (Drillsearch – 5% Working Interest)  
*Operator: Talisman Oil Limited*

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

**B OPERATIONS – CANADA**  
**Operations are conducted by Circumpacific Energy Corporation, a Canadian subsidiary of Drillsearch Energy Limited**

Gross petroleum revenue for the quarter ended 30th June, 2007, was A.\$1,910,499.

No additional drilling or seismic surveys were undertaken during the quarter. Gross petroleum revenue for the year ended 30<sup>th</sup> June, 2007, was A\$ 5,362,835

**C CORPORATE**

1. *Reserves and Forward Programme*

Drillsearch achieved close to \$15 million revenue in the financial year 2007 with a major oil reserve increase from it's drilling in SW Queensland. Its revenues should increase but at lower than projected rates in the current financial year ending 2007/08. It is actively pursuing new high impact projects, principally at Marina 1.

In September, 2007, Drillsearch will participate in a major potentially company transforming wildcat well in joint venture with Exxon Mobil offshore WA named Marina 1. The company will continue with its other exciting offshore projects principally Turtle Barnett while continuing development in the Cooper Basin.

2. *Meridian Loan Facility*

After the end of the quarter Drillsearch completed an extension of its loan facility with Meridian International Finance Limited.

### 3. Share Purchase Plan

On 23<sup>rd</sup> July, 2007, Drillsearch announced its 2007 share purchase plan (“SPP”). The plan will issue up to a maximum of 50 million shares, which if all taken up will raise \$8 million (before costs). Funds will be used to fund its share of the Marina 1 well and for other working capital purposes. The SPP documentation will be despatched to shareholders on 2<sup>nd</sup> August, 2007.

## D PETROLEUM SALES, REVENUE AND CAPITAL EXPENDITURE SUMMARY – QUARTER ENDED 30<sup>th</sup> JUNE, 2007

**Exchange Rate -- \$1 Australian = \$.9098 Canadian**

Table 5  
**Sales Volume – BOE**

|                                        | <b>Sales Volume</b><br>4 <sup>th</sup> Quarter<br>Ended<br>30 <sup>th</sup> June, 2007 | <b>Sales Volume</b><br>12 Months to<br>30 <sup>th</sup> June, 2007 |
|----------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Drillsearch Energy Limited – Australia | 26,493                                                                                 | 106,088                                                            |
| Drillsearch Energy Limited – Canada    | 24,474                                                                                 | 82,066                                                             |
| <b>Group Total</b>                     | <b>50,967</b>                                                                          | <b>188,154</b>                                                     |

### Sales Revenue - A\$

|                                        | <b>Revenue</b><br>4 <sup>th</sup> Quarter<br>30 <sup>th</sup> June, 2007<br>(Net of GST) | <b>Revenue</b><br>12 Months to<br>30 <sup>th</sup> June, 2007<br>(Net of GST) |
|----------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| Drillsearch Energy Limited – Australia | \$2,371,194                                                                              | \$9,323,838                                                                   |
| Drillsearch Energy Limited – Canada    | \$1,910,499                                                                              | \$5,362,835                                                                   |
| <b>Group Total</b>                     | <b>\$4,281,693</b>                                                                       | <b>\$14,686,673</b>                                                           |

### Capital Expenditures – A\$

|                                        | <b>Capital Expenditures</b><br>4 <sup>th</sup> Quarter<br>30 <sup>th</sup> June, 2007<br>(Net of GST) | <b>Capital Expenditures</b><br>12 Months to<br>30 <sup>th</sup> June, 2007<br>(Net of GST) |
|----------------------------------------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Drillsearch Energy Limited – Australia | \$4,600,497                                                                                           | \$21,459,433                                                                               |
| Drillsearch Energy Limited – Canada    | \$703,091                                                                                             | \$1,884,481                                                                                |
| <b>Total Capital Expenditures</b>      | <b>\$5,303,588</b>                                                                                    | <b>\$23,343,914</b>                                                                        |

[This report is based on information compiled by Philip F. Kelso, Managing Director, who is Bachelor of Science (Geology), a corporate member of the Australasian Institute of Mining and Metallurgy and a member of the Petroleum Exploration Society of Australia. He has had 17 years experience in the field of activity in which he is reporting].

Yours faithfully,  
**DRILLSEARCH ENERGY LIMITED**

**PHILIP F. KELSO**  
**MANAGING DIRECTOR**

**Abbreviations**

|         |                                                                                                                     |
|---------|---------------------------------------------------------------------------------------------------------------------|
| AOF     | Absolute open flow test of well                                                                                     |
| AFE     | Authority for expenditure for capital, e.g. drilling operations issued to joint venture participants to participate |
| AVO     | Amplitude versus offset analysis of seismic data used to predict presence of hydrocarbons                           |
| BOPD    | Barrels of oil per day                                                                                              |
| AMI     | Area of mutual interest                                                                                             |
| BCF     | Billion cubic feet                                                                                                  |
| BOE     | Barrel of oil equivalent                                                                                            |
| BOEPD   | Barrels of oil equivalent per day                                                                                   |
| bbls    | Barrels of oil                                                                                                      |
| C & S   | Well cased following drilling. Awaiting completion/production.                                                      |
| DHI     | Direct hydrocarbon indicator.                                                                                       |
| GORR    | Gross Overriding Royalty on petroleum revenue                                                                       |
| mmbbls  | million barrels of oil                                                                                              |
| Mcf     | Thousand cubic feet                                                                                                 |
| mcf/d   | Thousand cubic feet per day                                                                                         |
| mmcf    | Million cubic feet                                                                                                  |
| mmcf/d  | Million cubic feet per day                                                                                          |
| NFE     | near producing field exploration well                                                                               |
| P&A     | plugged and abandoned                                                                                               |
| PCP     | electric progressing cavity pump                                                                                    |
| psig    | pounds per square inch at sea level                                                                                 |
| 1P      | Proved petroleum reserves                                                                                           |
| 2P      | Probable petroleum reserves                                                                                         |
| 3P      | Possible petroleum reserves                                                                                         |
| P&NG    | Petroleum and Natural Gas                                                                                           |
| NPV     | Net present value                                                                                                   |
| W.I.    | Working interest                                                                                                    |
| WTI     | West Texas Intermediate crude oil                                                                                   |
| NGL's   | Natural gas liquids                                                                                                 |
| Section | 1 sq. mile (640 acres)                                                                                              |
| tie-in  | Joining oil or gas wells to transportation lines for processing and sale                                            |
| tcf     | Trillion cubic feet                                                                                                 |