

Drillsearch Energy Limited

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31st July, 2006

The Manager
Company Announcements Office
Australian Stock Exchange Limited
4th Floor
20 Bridge Street
SYDNEY NSW 2000

FOR PUBLIC RELEASE

Dear Sirs,

**Re: Drillsearch Energy Limited (“Drillsearch”)
- Quarterly Report for the Period Ended 30th June, 2006**

(Abbreviations - See page 9)

HIGHLIGHTS

Record Petroleum Volumes and Revenues – Year to 30th June, 2006

- Drillsearch Energy group achieved record sales volumes and revenues in the 12 months to 30th June, 2006. With improved oil sales volumes, revenue increased 61% to \$12.4 million. Comparative figures are shown in Table 1.

Table 1

<i>Drillsearch Group</i>	<i>2006</i>	<i>2005</i>
Sales Volumes (BOE)	159,800	107,000
Sales Revenues (A\$)		
- Australia	\$7,226,856	\$4,559,361
- Canada	\$5,177,371	\$2,566,455
Total Group Sales	\$12,404,227	\$7,125,816

Quarter – 30th June, 2006 (See Table 4)

- The Drillsearch group received petroleum revenues of \$3,693,300 for the quarter (47% increase). Petroleum volumes increased during the quarter as a total of 8 new wells commenced production in the Tintaburra Block. Although the Tintaburra Block volumes increased during the fourth quarter, sales are expected to increase more strongly during the coming quarter as product reaches the sale point.

Tintaburra Block – Major Oil Drilling Programme

- The oil development drilling programme in the Block continued with very high success rates. Twenty two (22) wells had been drilled by the end of the quarter. These wells extended the mid Birkhead reservoir at Mulberry field and at Endeavour field 15 kms north of Mulberry.

- After the end of the quarter Drillsearch announced that the Tintaburra programme had been expanded to 70 wells for 2006 with 1 well being deleted and 20 added.

Canada

- Canadian revenues increased sharply to \$1.682 million during the quarter as three (3) new oil wells were placed on production at Colgate, Saskatchewan.

A OPERATIONS – AUSTRALIA

1. Australia – Queensland

1.1 ATP.259P Naccowlah and ATP 299P Tintaburra, SW Queensland

Operator: Santos Limited

Production Operations

Oil production operations continued in south/west Queensland during the quarter, with sales of 18,534 barrels for total net oil sales of \$2,011,166 (inclusive of GST).

1.2 ATP.299P Tintaburra Block

*Drillsearch - 10% Working Interest
(See Map 1 below)*

Drillsearch's oil sales volumes from the Tintaburra Block increased during the quarter to 17,414 bbls. Production volumes were, however, sharply higher due to the tie in of 8 new oil wells by the end of the quarter and oil sales volumes are expected to increase significantly during the next quarter as oil inventory is sold.

1.2.1 70 Well Oil Drilling Programme – Tintaburra Block

Introduction

Drillsearch is participating in the largest programme of continuous oil drilling ever undertaken in the Cooper/Eromanga Basin.

The major oil drilling initiative of 49 firm wells and 2 contingent wells continued during the quarter. By the end of the quarter 22 wells had been drilled. 8 wells were placed on line as oil producers. 12 wells had been cased and suspended as future oil producers or injectors. 2 wells were plugged and abandoned following testing (See Table 2 below).

At the date of this report 32 wells had been drilled.

With the very high success rates achieved, the drilling programme has been expanded to 70 wells. This drilling will continue through to the end of 2006.

Planning for 2007 is underway. The 2007 drilling programme will be dependent on results through 2006 but may involve an additional 50 wells.

Progress During the Quarter

The drilling programme has generated a number of notable results:

- Extended the Mulberry field over a 3 km trend.
- Encountered up to 15 metres of net oil pay in several wells at Endeavour field.

Most of the successful wells encountered the mid Birkhead oil well reservoir at locations from Endeavour in the north to Mulberry and Talgeberry fields in the south.

Details of drilling progress are being progressively released to the ASX as Weekly Drilling Summaries and these summaries enclose maps showing well locations. (See Maps: ASX Release 13th May, 2006).

A summary of the wells completed from the commencement of the programme to the end of the quarter (30th June, 2006), is set out in Table 2 below:

Table 2

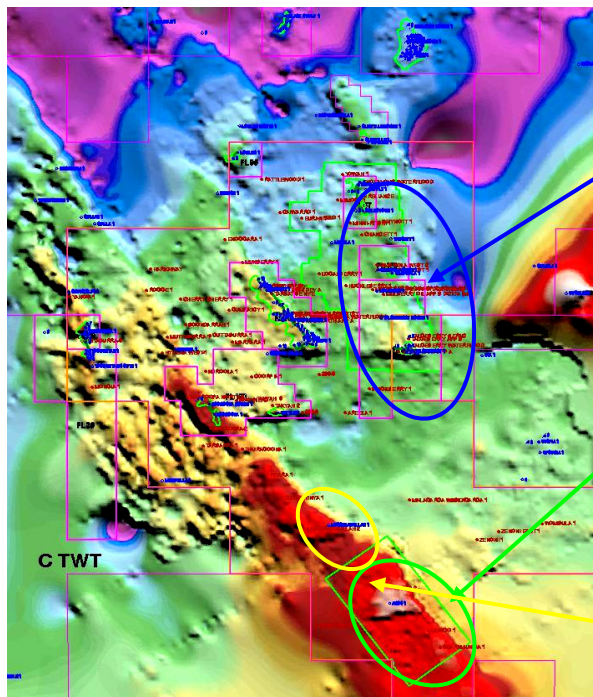
Well	Operations	Type	Status as of 30 th June, 2006	Production Start Up Date	Working Interest
Mulberry 6	New Well	Development	Oil well	30 March 2006	10%
Mulberry 7	New Well	Development	Water Injector	21 May 2006	10%
Mulberry 8	New Well	Delineation	Oil well	05 May 2006	10%
Mulberry 9	New Well	Delineation	Oil well	20 May 2006	10%
Mulberry 14	New Well	Delineation	Oil well	10 May 2006	10%
Mulberry 10A	New Well	Delineation	Oil well	05 June 2006	10%
Mulberry 11	New Well	Development	Oil well	06 June 2006	10%
Mulberry 16	New Well	Delineation	Oil well	11 June 2006	10%
Gimboola 3	New Well	Delineation	C & S Oil well	---	10%
Endeavour 5	New Well	Delineation	C & S Oil well	---	10%
Mimosa 1	New Well	NFE	C & S Oil well	---	10%
Mulberry 12	New Well	Delineation	C & S Oil well	---	10%
Endeavour 11	New Well	Delineation	C&S Oil well	---	10%
Huckleberry 1	New Well	NFE	P&A	---	10%
Mulberry 15	New Well	Delineation	C&S Oil well	---	10%
Mimosa 1	New Well	NFE	C&S Oil well	---	10%
Mulberry 17	New Well	Delineation	C&S Oil well	---	10%
Endeavour 8	New Well	Delineation	C&S Oil well	---	10%
Gimboola 2	New Well	Delineation	C&S Oil well	---	10%
Gimboola 5	New Well	Delineation	C&S Water Injector	---	10%
Gimboola 7	New Well	Development	P&A	---	10%
Chancett 1	New Well	NFE	C&S Oil well	---	10%

2 Drill Rigs Added to Programme

During the quarter, the operator added a further 2 Precision Drilling Rigs to the programme. The rigs have performed very efficiently with the current average time for drilling and casing a well being approximately 6 days.

Programme Area - Eastern Tintaburra Block

Map 1 – Location of 70 Well Programme Within Tintaburra Block



Time-structure map of the top Cadna-Owie Formation (Early Cretaceous)

The 2006 programme comprise 3 phases:

Mulberry Area:

A. Initial 45 wells planned to delineate Mulberry and other producing fields, e.g. Endeavour. The focus will be on extending the producing fields. Targets selected using the drill results and the Talgeberry/Endeavour 3D seismic survey data. Some wells will be completed as water injectors to enhance reservoir pressure. 20 additional wells to be drilled with focus on Mulberry and Endeavour development drilling.

Aros:

B. 3-4 near field exploration (NFE) wells planned for the Aros trend, where Aros-1 hit oil in 1990. Locations have been identified from the Aros 3D seismic data.

Mugginanullah:

C. 1-2 NFE wells are planned at Mugginanullah, just North of Aros.

1.2.2 Surface Facilities

During the quarter the operator undertook installation of new surface production facilities with installation of electric PCP pumps down hole in production wells and temporary electric generators to provide power for the electric pumps. PCP's are being used in lieu of donkey pumps.

The 15 km oil pipeline from Mulberry field to the Tarbat production facilities was fully operational by the end of the period. At the end of the period planning was underway to build a 15 km gas pipeline from the main Ballera/Brisbane pipeline to the Tarbat production facilities. This pipeline will provide gas for electricity generation to run the PCP's.

1.2.2 Seismic – Tintaburra Block

Processing and interpretation of the completed Mugginanullah/Kooroopa 3D seismic survey was in progress.

The Tarbat/Ipundu 3D seismic survey was partially completed and processing of the data collected so far was in progress.

1.2.3 Forward Program

The forward development, appraisal and exploration programme for the Block will be:

- Continuation of delineation and near field exploration drilling along the 25 km Endeavour/Mulberry/Talgeberry trend where mid Birkhead oil reservoirs are developed in the eastern section of the Block.
- Continued installation of surface and down hole production facilities.
- Progressive tie in of wells.

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

Interpretation of data from the 780 sq. km Jackson/Naccowlah 3D seismic survey was completed during the quarter. Planning for a new 3D seismic survey to cover the Watson south area in the southern part of the Naccowlah Block commenced.

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

Native Title negotiations were making good progress during the quarter. Negotiations on the formal terms of a JOA with Santos Limited continued during the quarter.

1.5 ATP.823P – Surat Basin
Drillsearch – 100% Working Interest

During the quarter, Drillsearch was awarded ATP.823P covering 715 sq. kms along the oil prone western edge of the Surat Basin, Queensland.

Drillsearch commenced compilation of the seismic data base and geoscientific studies.

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

The well continues to produce sales gas.

2 Australia – Western Australia (WA)

2.1 Southern Bonaparte Gulf, Offshore WA

2.1.1 WA.318P
- *Drillsearch - 100% Working Interest – Operator*

Operations

Drillsearch engaged Peak Management Services, Perth, to source a jack up drilling rig as part of a broader 6 – 10 well programme to be undertaken in Australia and committed to 1 firm well on WA.318P and 1 optional well on its other permit interests in the Bonaparte Gulf. An additional seismic survey may be undertaken prior to drilling.

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

2.1.2.1 *Renewal*

During the quarter Drillsearch undertook additional seismic studies on the Turtle/Barnett data with emphasis on Barnett. Renewal applications for the leases were under consideration by the joint authority.

It is planned to undertake hydrographic surveys and additional seismic acquisition in the Turtle and possibly Barnett leases during 2006 in conjunction with a possible survey on WA.318P.

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

Drillsearch commenced re-processing 400 kms of the existing seismic database within WA.352P. During the quarter the Tap/Santos joint venture announced the Amulet oil discovery approximately 2 kms west of and down dip from this permit. This discovery has significantly enhanced its prospectivity.

3 Papua New Guinea

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

The joint venture acquired several new seismic lines over the Flinders Prospect and AVO and geological studies continued during the quarter. Those studies are designed to provide a decision before the end of 2006 on drilling the Flinders Prospect.

B OPERATIONS – CANADA

Operations are conducted by Circumpacific Energy Corporation, a Canadian subsidiary of Drillsearch Energy Limited

Production and Development

Summary

Circumpacific again achieved excellent drilling and production results during the quarter with the completion of one (1) new horizontal at Colgate, Saskatchewan and a continuation of strong revenues. Net petroleum revenue for twelve (12) months to 30th June, 2006, more than doubled to CAD \$4,497,065 (A\$5.177 million).

Kakwa – Non Unit Lands – West Central Alberta - Circumpacific Interest 12.5%

Tie ins and additional production testing were undertaken during the quarter.

Colgate – Saskatchewan

Circumpacific participated at its 12% working interest in one (1) additional successful horizontal oil development well on the Colgate property. The four (4) wells drilled this year were placed on stream during the quarter. The operator is planning additional wells.

C CORPORATE

1. Placement

On 21st April, 2006, Drillsearch announced the placement of 49,419,393 fully paid ordinary shares to sophisticated investors at \$0.09 to raise \$4.447 million prior to issue expenses. These funds were applied to general working capital and the 2006 oil development programme.

2. Reserves

On 21st April, 2006, Drillsearch announced a major increase in group petroleum reserves for the year ended 31st December, 2005. Drillsearch's Australian reserves are almost 100% oil and held in its Cooper Basin properties.

These increases came as the result of development drilling on its SW Queensland properties.

Success during the first phase of the Tintaburra Block drilling programme significantly expanded Drillsearch's oil reserves during the quarter but these reserves will not be calculated until later in 2006 at the earliest following production performance of new wells as they are progressively tied in.

Drillsearch Energy Group Petroleum Reserves – 31st December, 2005 (With Comparatives)

Table 3

<i>Proved (1P) + Probable (2P)</i>	<i>Gross 31st December, 2004</i>	<i>Gross 31st December, 2005</i>	<i>% Increase</i>
1P + 2P (developed + undeveloped)	Oil mmboe	Oil mmboe	
Total 2P Australia	0.54	0.70	
Total 2P Canada	0.26	0.26	
2P Group Total	0.80	0.96	20
3P (developed + undeveloped)	Oil mmboe	Oil mmboe	
Total 3P Australia	1.85	3.15	
3P Group Total	1.85	3.15	70
Total Drillsearch Consolidated 3P Reserves	2.65	4.11	55

**D PETROLEUM SALES, REVENUE AND CAPITAL EXPENDITURE SUMMARY
– QUARTER ENDED 30th JUNE, 2006**

Exchange Rate -- \$1 Australian = \$0.8686 Canadian

Table 4

Sales Volume – BOE

	Sales Volume 4 th Quarter Ended 30/06/2006	Sales Volume 3 rd Quarter Ended 31/03/2006
Drillsearch Energy Limited – Australia	18,534	16,118
Drillsearch Energy Limited – Canada	24,019	16,899
Group Total	42,553	33,016

Sales Revenue - A\$

	Revenue 4 th Quarter 30/06/2006 Incl. GST	Revenue 3 rd Quarter 31/03/2006 Incl. GST
Drillsearch Energy Limited – Australia	\$2,011,166	\$1,584,725
Drillsearch Energy Limited – Canada	\$1,682,134	\$915,325
Group Total	\$3,693,300	\$2,500,050

Capital Expenditures – A\$

	Capital Expenditures 4 th Quarter 30/06/2006 Incl. GST	Capital Expenditures 3 rd Quarter 31/03/2006 Incl. GST
Drillsearch Energy Limited – Australia	\$4,631,155	\$3,656,166
Drillsearch Energy Limited – Canada	\$954,863	\$189,940
Total Capital Expenditures	\$5,586,018	\$3,846,106

[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 15 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
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
psig	pounds per square inch @ 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 gas wells to gas transportation lines for processing and sale
tcf	Trillion cubic feet