

# Drillsearch Energy Limited

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31<sup>st</sup> October, 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 September, 2006**

(Abbreviations - See page 9)

## **HIGHLIGHTS**

### ***Tintaburra Drilling Success Continues***

- Drillsearch continued its participation in the major Tintaburra oil development programme during the quarter with the drilling of 29 new wells, 22 of which cased and suspended as future oil producers or water injectors.
- Following the success of the programme to date, during the quarter the programme was expanded from the original 51 wells to 70 wells.
- Drillsearch’s share of oil production volumes from the Tintaburra Block increased and further volume increases will continue.

### ***Increased Petroleum Volumes and Revenues - Quarter to 30th September, 2006***

- The Drillsearch group achieved slightly increased sales volumes and revenues during the quarter. Production volumes are expected to translate into increased sales during the second quarter of 2006/2007.
- Comparative figures with the previous quarter are shown in Table 1.

*Table 1*

<b><i>Drillsearch Group</i></b>	<b><i>Sales 1<sup>st</sup> Quarter Ended 30/09/2006</i></b>	<b><i>Sales 4<sup>th</sup> Quarter Ended 30/06/06</i></b>
<b>Sales Volumes (boe)</b>	<b>43,923</b>	<b>43,575</b>
<b>Group Sales Revenues (A\$)</b>	<b>\$3,895,494</b>	<b>\$3,735,520</b>

### ***Bonaparte Gulf, WA***

- Drillsearch has secured two (2) drilling slots to test its Bonaparte projects in 2007 with the jack up rig “Wilcraft”. This programme will see the 235 mmbbl potential Marina Prospect in WA318P drilled around September, 2007, to be followed by an appraisal well at Turtle/Barnett.

- Drillsearch commenced farmin negotiations with a major operator. It is anticipated that the partner will participate in the 2 wells.

## Canada

### A OPERATIONS – AUSTRALIA

#### 1. Australia – Queensland

##### 1.1 ATP 299P Tintaburra and ATP.259P Naccowlah, SW Queensland Operator: Santos Limited

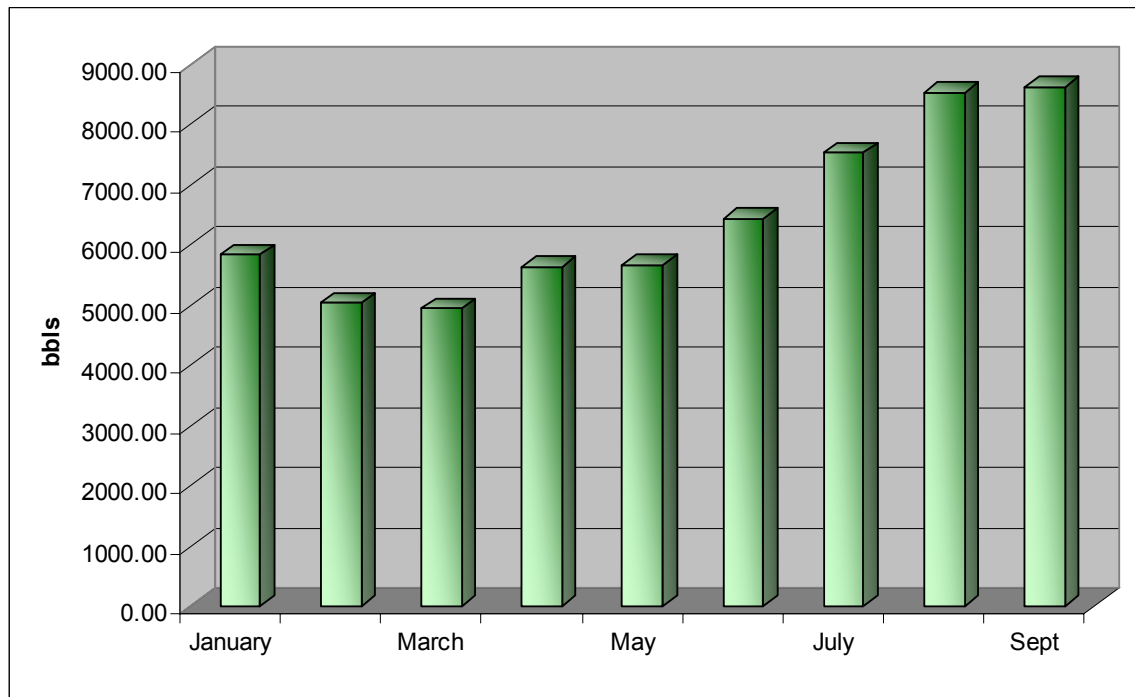
###### SW Queensland Production Operations

Oil production operations continued during the quarter, with sales of 23,234 barrels (Last quarter: 18,534 barrels) for total net oil sales of \$2,473,606 (inclusive of GST).

##### 1.2 ATP.299P Tintaburra Block *Drillsearch - 10% Working Interest* *(See Map 1 below)*

Drillsearch's oil production from the Tintaburra Block increased during the quarter to 23,317 bbls (Last quarter: 17,053 bbls). Production volumes were significantly higher due to the tie in of an additional 6 wells during the quarter. See Chart 1.

*Chart 1 – Tintaburra Oil Production (DLS Share)*



Oil production will again increase in the second quarter. Oil sales volumes are also expected to increase significantly during coming quarters as oil inventory is moved to the sale point in Brisbane and additional successful wells which are suspended are placed on line.

## 1.2.1 Cooper Oil Project – Tintaburra Block

### **Introduction**

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

Planning for 2007 was underway at the end of the quarter.

### **Drilling Progress During the Quarter**

#### *Drilling*

Oil drilling continued with the completion of 29 wells in the eastern section of the Tintaburra Block. Of these wells 22 were cased and suspended as future oil producers or water injectors, 7 were plugged and abandoned. During the quarter 6 of these cased wells were placed on line as producers.

At the date of this report 59 wells have been drilled since February, 2006. with very high success rates achieved. The operator has again expanded the programme. At the date of this report drilling will continue through to the end of 2006 and an additional 24 wells are planned at the completion of the current 70 well programme.

#### *Results*

The drilling programme during the quarter generated a number of notable results:

- The 2 Precision Drilling Rigs operated efficiently completing 2 wells each 7 days.
- Wells at Endeavour field continued to encounter large net oil pay columns averaging 9 metres in the Birkhead Formation. This has resulted in the operator proposing an additional 20 wells, most of which will be drilled at Endeavour to further delineate the extended oil pool.
- Kooyong 1 – A possible new oil field discovery 2 kms south/west of the Endeavour field.
- Continued extensions of the mid Birkhead reservoir at Mulberry field. This has now extended the field approximately 3 kms north/south and 2 kms. east/west.

#### *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> July, 2006 to 30<sup>th</sup> September, 2006, is set out in Table 2 below:

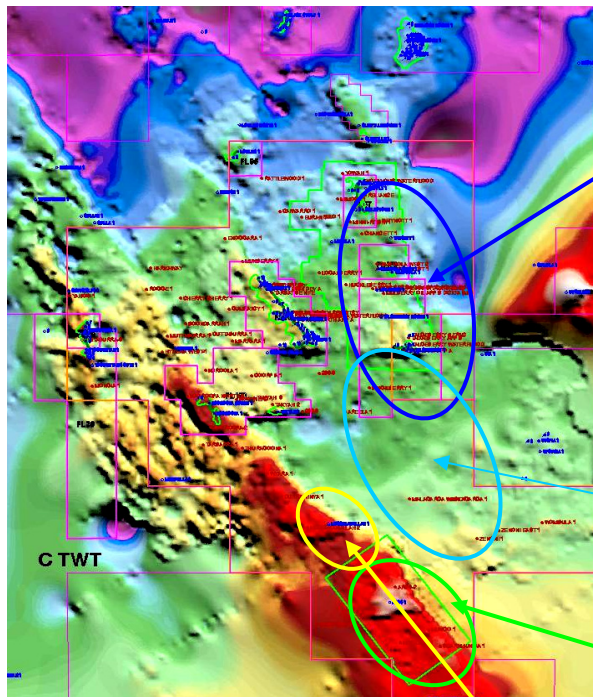
Table 2:

Well	Operations	Type	Status as at 30th September, 2006	On line	Working Interest
Bilberry 1	New Well	NFE	P&A		10%
Cranberry 1	New Well	NFE	P&A		10%
Cranstoun 3	New Well	Delineation	C&S		10%
Cranstoun 4	New Well	Delineation	C&S		10%
Endeavour 6	New Well	Delineation	C&S		10%
Endeavour 7	New Well	Development	On line	September 2006	10%
Endeavour 9	New Well	Delineation	On line	September 2006	10%
Endeavour 10	New Well	Development	C&S water injector		10%
Endeavour 14	New Well	Development	C&S water injector		10%
Endeavour 18	New Well	Delineation	C&S		10%
Eulo 1	New Well	NFE	P&A		10%
Gimboola 4a	New Well	Delineation	On line	August 2006	10%
Kooyong 1	New Well	NFE	C&S		10%
Loganberry 1	New Well	NFE	P&A		10%
Minni-Ritchi 1	New Well	NFE	C&S		10%
Mulberry 19	New Well	Development	C&S		10%
Mulberry 21	New Well	Delineation	C&S		10%
Mulberry 25	New Well	Development	C&S water injector		10%
Reliance 1	New Well	NFE	C&S water injector		10%
Talgeberry 9	New Well	Delineation	C&S		10%
Talgeberry 10	New Well	Delineation	On line	September 2006	10%
Talgeberry 11	New Well	Delineation	C&S		10%
Talgeberry 12	New Well	Delineation	On line	September 2006	10%
Talgeberry 13	New Well	Delineation	On line	September 2006	10%
Talgeberry 14	New Well	Delineation	C&S - producer/injector		10%
Talgeberry 15	New Well	Delineation	C&S water injector		10%
Talgeberry 16	New Well	Delineation	P&A		10%
Tooten 1	New Well	NFE	P&A		10%
Whynott 1	New Well	NFE	P&A		10%

## Forward Drilling Programme

### Areas

**Map 1 – Location of Drilling Programme Within Tintaburra Block**



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

The 2006 programme has developed in several phases:

**Endeavour/Mulberry/Talgeberry Area:**

**A.** Since the commencement of the programme in February, 2006, 59 wells have been completed. These wells have been concentrated along a 20 km trend covering the Endeavour/ Mulberry/ Talgeberry fields in the eastern section of the Tintaburra Block. Drilling during the quarter particularly on the Endeavour field has extended that field significantly and additional appraisal wells are being planned.

**Zenoni:**

**B.** 4 near field exploration (NFE) wells have been added to the programme to explore several structures outlined by seismic south of the Talgeberry field.

**Aros:**

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

**Mugginanullah:**

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

## Forward Plan

The forward development, appraisal and exploration programme for the balance of 2006 is:

- When the existing 70 well programme (59 completed to date) is completed, add another 20 wells concentrating principally on development drilling at Endeavour field.
- Add 4 NFE wells to be drilled in the Zenoni area, south of Talgeberry and north/east of Aros.
- Progressive tie in of wells and installation of surface facilities.
- Plan 2007 drilling.

### 1.2.2 Surface Facilities

The operator continued to install new surface production facilities, including oil and water flowlines. The Mulberry field facilities were connected by oil and water flow lines north to the Endeavour and south to the Talgeberry fields.

### 1.2.2 Seismic – Tintaburra Block

Processing and interpretation of the completed Mugginanullah/Kooroopa 3D seismic survey continued.

The Tarbat/Ipundu 3D seismic survey was still partially completed and processing of data continued.

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

Work commenced on a new 3D seismic survey to cover the Watson South area in the southern part of the Naccowlah Block. This survey was still in progress at the end of the quarter. Planning for a substantial 2007 drilling programme commenced. The scope of that programme will be finalised by mid November, 2006.

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

Good progress was made on obtaining a Native Title Access Agreement. During the quarter Drillsearch made progress on finalising the terms of a formal farmin and JOA with Santos Limited.

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

ATP.823P covers 715 sq. kms along the oil prone western edge of the Surat Basin, Queensland.

Drillsearch continued compilation of the seismic database and geoscientific studies. It commenced obtaining environmental clearances.

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*

Peak Management, Perth, sourced a jack up drilling rig as part of a broader 13 well programme to be undertaken in Australia. Drillsearch committed to 1 firm wildcat well to test the 235 mmbbl potential Marina Prospect on WA.318P. 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*

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.

During the quarter Drillsearch planned 1 well subject to renewal and/or extension of the leases. It planned to undertake hydrographic surveys and additional seismic acquisition in the Turtle and possibly Barnett leases during 2007.

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

Drillsearch continued re-processing 400 kms of the seismic database. The Tap/Santos joint venture Amulet oil discovery approximately 2 kms west of and down dip from this permit has very significantly enhanced its prospectivity.

**3 Papua New Guinea**

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

AVO and geological studies continued during the quarter. Those studies revealed that the Flinders Prospect appeared to be gas charged with in excess of 1 TCF of gas/condensate. Further studies were continuing as a prelude to making a decision on drilling Flinders. That decision will now be made by early 2007.

**B OPERATIONS – CANADA**

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

***Production and Development***

Summary

Circumpacific again achieved good production volumes during the quarter. Production during the month of September, 2006, was reduced due to shut ins of wells at the Kakwa non-unit leases.

Gross petroleum revenue for the 3 months to 30<sup>th</sup> September, 2006, was CAD\$1,197,799. Revenues were reduced from the previous quarter by lower oil and gas prices in Canada.

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

Tie ins of 2 previously drilled wells and associated pipelining installations were in progress during the quarter. These wells are expected to significantly add to Circumpacific's sales volumes and revenues during the coming quarter.

Colgate – Saskatchewan

Horizontal wells previously drilled were progressively production tested and the operator is planning an additional 2 horizontal wells in December, 2006. Each well will have 2 branch laterals.

Wilsden Green – Alberta

Additional development drilling is planned for this property during the next 6 months.

## C CORPORATE

### 1. Reserves

Drillsearch's reserves for the period ended 31<sup>st</sup> December, 2005, were announced to the ASX on 21<sup>st</sup> April, 2006. In the 12 months to the end of that period 2P reserves had increased to 960,000 barrels.

Drillsearch's successful Tintaburra drilling programme increased 2P reserves at August, 2006 by about 550,000 barrels to around 1.5 mmbbls. 3P reserves accordingly increased to around 4.5 mmbbls.

Drillsearch's reserve life index again increased to plus 15 years.

### 2. \$18 Million Loan Facility

Drillsearch announced to the ASX on 6<sup>th</sup> October, 2006, that it had closed an \$18 million finance facility, which will fund the balance of the 2006 oil drilling programme in the Tintaburra Block.

## D PETROLEUM SALES, REVENUE AND CAPITAL EXPENDITURE SUMMARY – QUARTER ENDED 30<sup>TH</sup> SEPTEMBER, 2006

**Exchange Rate -- \$1 Australian = \$.8424 Canadian**

Table 4  
**Sales Volume – BOE**

	<b>Sales Volume</b> 1st Quarter Ended 30/09/2006	<b>Sales Volume</b> 4th Quarter Ended 30/06/2006
Drillsearch Energy Limited – Australia	23, 234	18,534
Drillsearch Energy Limited – Canada	20,689	24,041
<b>Group Total</b>	<b>43,923</b>	<b>43,575</b>

**Sales Revenue - A\$**

	<b>Revenue</b> 1st Quarter 30/09/2006 Incl. GST	<b>Revenue</b> 4 <sup>th</sup> Quarter 30/06/2006 Incl. GST
Drillsearch Energy Limited – Australia	\$2,473,606	\$2,011,166
Drillsearch Energy Limited – Canada	\$1,421,888	\$1,724,354
<b>Group Total</b>	<b>\$3,895,494</b>	<b>\$3,735,520</b>

**Capital Expenditures – A\$**

	<b>Capital Expenditures</b> 1st Quarter 30/09/2006 Incl. GST	<b>Capital Expenditures</b> 4th Quarter 30/06/2006 Incl. GST
Drillsearch Energy Limited – Australia	\$5,282,562	\$4,631,155
Drillsearch Energy Limited – Canada	\$671,372	\$984,560
<b>Total Capital Expenditures</b>	<b>\$5,953,934</b>	<b>\$5,615,715</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 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
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
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