

Drillsearch Energy Limited

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31st January, 2007

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 31st December, 2006**

(Abbreviations - See page 9)

HIGHLIGHTS

Record Petroleum Revenue – Half Year to 31st December, 2006

- Drillsearch achieved record petroleum revenues of \$7.24 million for the half year ended 31st December, 2006 and is on track to achieve a sales record for the 2007 financial year.
- Total group sales volumes and sales revenues received and accrued during the half year ended 31st December, 2006, with comparative figures were:

Table 1

<i>Drillsearch Group</i>	<i>2006 6 Months</i>	<i>2005 6 Months</i>
Sales Volumes (boe)	91,799	76,447
Group Sales Revenues (A\$)	\$7,244,877	\$5,785,082

Increased Petroleum Volumes – 2nd Quarter to 31st December, 2007

- Drillsearch achieved increased sales volumes in the 2nd quarter as new oil wells in the Tintaburra Block were tied in. Sales revenue was lower due to oil and gas price declines and an appreciating A\$ exchange rate.
- Production volumes and sales are expected to increase further during the 3rd quarter.
- Comparative figures with the previous quarter are shown in Table 2.

Table 2

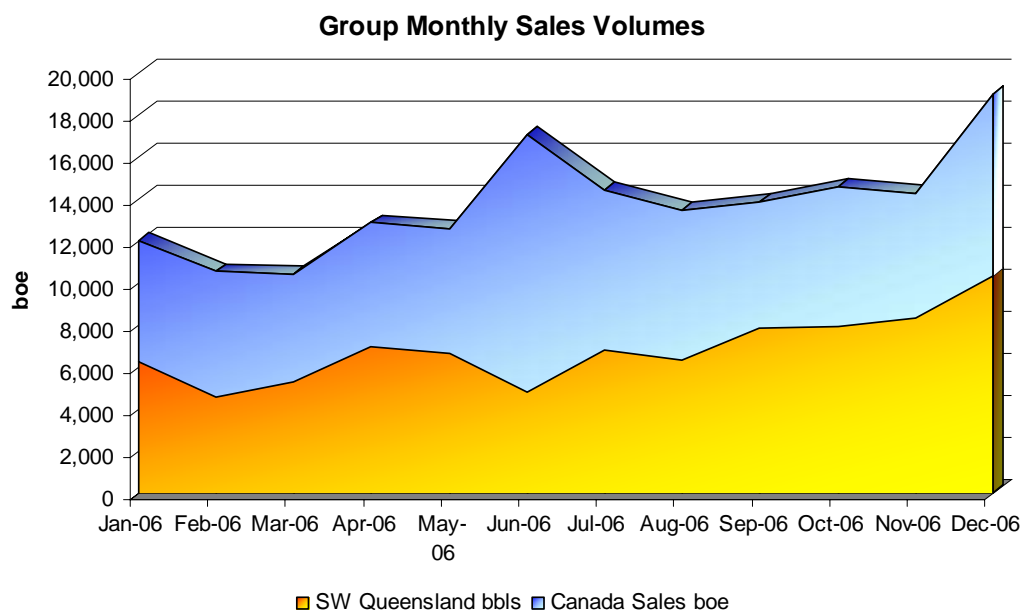
Drillsearch Group	Sales 2nd Quarter Ended 31st December, 2006	Sales 1st Quarter Ended 30th September, 2006
Sales Volumes (BOE)	47,876	43,923
Group Sales Revenue (A\$)	\$3,349,383	\$3,895,494

Tintaburra Oil Project - Success Continues

- Drillsearch continued its participation in the major Tintaburra oil development programme comprising 76 new wells and surface infrastructure investment. During the quarter 22 new oil wells were drilled. 4 of these wells are online as producers, 9 are cased and suspended as future oil producers or water injectors and 9 exploration and delineation wells were plugged and abandoned.
- A total of 76 new wells were drilled in the Tintaburra Block through 2006 with total investment of around \$18 million.
- Following the success of the 2006 programme, during the quarter a 3rd Phase, 22 well development programme was commenced at Endeavour field and planning to drill an additional 11 development wells at Mulberry field commenced.
- Drillsearch achieved a major increase in its petroleum reserves for the year ended 31st December, 2006.

Drilling Success Increasing Production

- Drillsearch's successful development programmes in Australia and Canada have increased sales volumes through 2006:



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 is negotiating with 2 potential farminees to participate in these 2 company making wells.

A OPERATIONS – AUSTRALIA

1. Australia – Queensland

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

Operator: Santos Limited

SW Queensland Production Operations

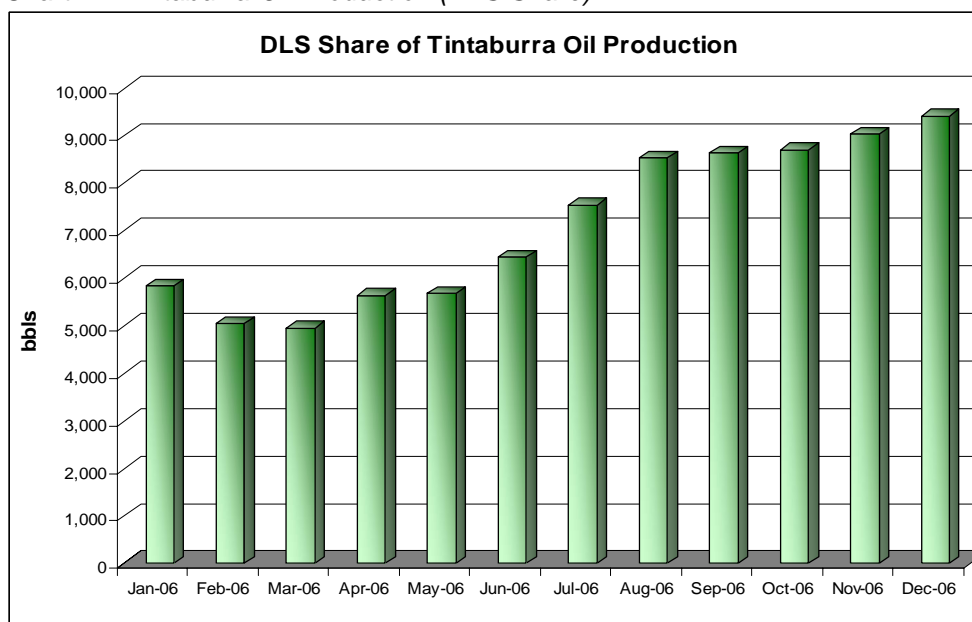
Oil production operations continued during the quarter, with sales of 26,684 barrels (Last quarter: 23,234 barrels) for total oil sales of A\$ 2,330,436 (inclusive of GST).

1.2 ATP.299P Tintaburra Block

Drillsearch - 10% Working Interest

Drillsearch's oil production from the Tintaburra Block again increased during the quarter to 23,568 bbls (Last quarter: 17,902 bbls).

Chart 1 – Tintaburra Oil Production (DLS Share)



Oil production will again increase in the third 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 are placed on line.

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

Introduction

Drillsearch continued its participation in the largest programme of continuous oil drilling ever undertaken in the Cooper/Eromanga Basin.

The drilling was concentrated on extending the Endeavour field through the commencement of a Phase 3, 22 well programme and 8 near field exploration wells located in the southern part of the Block.

Approved budgets for 2007 will see at least 62 new wells including development wells on the Talgeberry, Mulberry, Endeavour and NFE wells fields.

COP Progress During the Quarter

Drilling

Delineation and Development

Oil delineation and development continued with the completion during the quarter of 14 wells in the eastern section of the Tintaburra Block. Of these wells 8 were cased and suspended as future oil producers or water injectors, 2 were plugged and abandoned and 4 wells placed online as producers.

The drilling and development programme continued to return notable results:

- Wells at Endeavour field continued to encounter large net oil pay columns in the Birkhead Formation. Drilling has continued to extend the field to the west and south/west towards the Kooyong 1 and Eulo 1 wells. These extensions to the Endeavour field are providing additional development drilling opportunities
- Continued extensions of the mid Birkhead reservoir at Mulberry field. This month successful wells have extended the field in the south and planned drilling for 2007 aims to extend the field to the west and southwest.

Exploration

During the quarter Drillsearch participated in 8 exploration wells in the southern part of the Block. All of these wells encountered oil shows in several zones but generally failed to locate reservoirs capable of production at economic rates. 7 of the wells were plugged and abandoned. The exception was Zenoni 1, which returned oil from a DST and was cased and suspended as a possible producer/injector.

At the date of this report, the 22 well Endeavour field development programme (Phase 3) was continuing and an additional 11 well development programme had commenced at the Mulberry field.

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 8th September, 2006).

A summary of the wells completed from 1st October, 2006 to 31st December, 2006, is set out in Table 2 below:

Table 2:

Well	Operations	Type	Status as at 31st December, 2006	On line	Working Interest
Aros 2	New Well	NFE	P&A		10%
Bingilberry-1	New Well	NFE	P&A		10%
Currawinya 1	New Well	Delineation	P&A		10%
Endeavour 12	New Well	Delineation	C&S		10%
Endeavour 13	New Well	Delineation	<i>On Line</i>	November 2006	10%
Endeavour 15	New Well	Development	C&S		10%

Endeavour 16	New Well	Delineation	On Line	November 2006	10%
Endeavour 21	New Well	Development	C&S - oil/water injector		10%
Endeavour 27	New Well	Development	C&S - water injector		10%
Endeavour 28	New Well	Delineation	C&S		10%
Endeavour 38	New Well	NFE	P&A		10%
Endeavour 41	New Well	Delineation	P&A		10%
Hakheem 1	New Well	NFE	P&A		10%
Mugginanullah 2	New Well	NFE	P&A		10%
Mulberry 18	New Well	NFE	C&S		10%
Mulberry 20	New Well	Development	C&S		10%
Mulberry 22	New Well	Delineation	On Line	November 2006	10%
Mulberry 23	New Well	Development	On Line	November 2006	10%
Mulberry 24	New Well	NFE	C&S		10%
Seagoon-1	New Well	Delineation	P&A		10%
Zenoni-1	New Well	Delineation	C&S - oil/water injector		10%
Ziegfreid-1	New Well	Delineation	P&A		10%

Surface Infrastructure

Installation of surface production infrastructure including power lines, fluid lines, PCP pumps and injection wells continued during the quarter. The installation and commissioning of the gas turbine electricity generation system was completed and placed on line. Fuel gas for this facility is being provided by a spur line transporting gas from the main Ballera / Brisbane pipeline.

Forward Drilling Programme - 2007

An additional 62 wells are planned for 2007.

Drilling will continue along the Talgeberry / Endeavour trend principally with delineation and development wells as follows:

- Endeavour– 22 wells (currently half completed)
- Mulberry – Around 20 wells (includes contingent wells depending on results)
- Other Tintaburra Block Areas – An additional 20 wells on delineation development and near field exploration.

Surface Infrastructure - 2007

The forward infrastructure and facilities development plan for 2007 includes:

- Construct a 135 km. oil pipeline from the Tintaburra Block to the Jackson Oil Facility in the Naccowlah Block. The budgeted cost of this oil pipeline is approximately A.\$40 million and Drillsearch's share will be A.\$4 million.
- The pipeline will dispense with the need for trucking oil which is liable to interruption principally due to heavy rains and associated road closures.
- Road maintenance levies will reduce.
- Continue to tie in successful wells.
- Continue to develop the production flow line network to accommodate new wells.
- Commence water flood operations at Endeavour.

Seismic Surveys

Interpretation of the completed Mugginanullah/Kooroopa 3D seismic survey continued. The Tarbat/Ipundu 3D seismic survey was still suspended but processing of data continued.

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

As a follow up to the Jackson/Naccowlah 3D survey completed in 2005, the operator has proposed 25 firm and 7 contingent wells in 2007 to test multi zone oil prospects along the Jackson/Naccowlah trend defined by the 3D survey. The objective of this programme is to double oil production from the Block. Drillsearch will participate in this round of drilling. Its share of production from the Block during the quarter was 3,116 barrels.

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

Negotiation of a formal farmin agreement and JOA with Santos Limited was completed and the formal agreement is about to be signed.

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

Drillsearch has been granted ATP 823P (Queensland) covering 715 sq. kms. along the oil prone western margin of the Surat Basin, Queensland.

The ATP covers well known oil and gas productive zones and is located south/west of the town of Surat near production leases held by Mosaic Oil and others. Drillsearch will drill one well on this block in 2007.

Drillsearch continued compilation of the seismic database 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*

Peak Management, Perth, sourced a jack up drilling rig as part of a broader 13 well programme to be undertaken in offshore 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. Drillsearch is confident of achieving a farmout of this well.

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

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 contingent 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 line kms of seismic data. 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 the joint venture making a decision by mid 2007 as to whether it would proceed to a drill test of 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 an increase in production volumes during the quarter due to the prolific 10-20 well at Kakwa which came on line in November, 2006.

Gross petroleum revenue for the quarter ending 31st December, 2006, was CAD.\$923,268. 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%

The 10-20 well at Kakwa was connected and came on line at a substantial flow rate.

Colgate – Saskatchewan

One new horizontal oil development well was successfully completed in December, 2006 and a second spudded. Each well has 2 branch laterals. It is anticipated that these wells will be brought on line in February, 2007. With this success it is anticipated that a further 2 horizontal wells into the Marly Member carbonates will be drilled during the fourth quarter 2006/07.

Willesden Green – Alberta

Circumpacific participated in the successful 16-36 Cardium (Formation) well, which encountered reservoir at virgin pressure. It will be equipped and put online in the third quarter 2006/07. A new well, targeting the Belly River Formation overlying the

Cardium will be spudded in early January, 2007. During the quarter, Circumpacific elected to exercise its right of first refusal and acquired an additional 2% WI in this property for CAD.\$190,000. It lifted its working interest to 25%.

C CORPORATE

1. Reserves

Drillsearch's reserves for the period ended 31st December, 2005, were announced to the ASX on 21st 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 has acquired reservoir engineering software, which will allow it to conduct its own in house production evaluation and calculation of petroleum reserves with particular emphasis on its south/west Queensland operations.

Drillsearch's reserve life index is in excess of 15 years.

2. \$18 Million Loan Facility

Drillsearch announced to the ASX on 6th October, 2006, that it had closed an \$18 million finance facility, which funded the balance of the 2006 oil drilling and development programme at Tintaburra.

At 31st December, 2006, Drillsearch has completed approximately \$18 million in capital investment at Tintaburra Block and had drawn approximately \$11.6 million against its facility.

3. Directors

During the quarter three (3) new directors, namely Messrs. Peter Simpson, Daryl Dixon and William Johnson were appointed to the Board and Mr. John Armstrong retired.

D PETROLEUM SALES, REVENUE AND CAPITAL EXPENDITURE SUMMARY – QUARTER ENDED 31st December, 2006

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

Table 4
Sales Volume – BOE

	Sales Volume 2 nd Quarter Ended 31 st December, 2006	Sales Volume 1 st Quarter Ended 30 th September, 2006
Drillsearch Energy Limited – Australia	26,684	23,234
Drillsearch Energy Limited – Canada	21,192	20,689
Group Total	47,876	43,923

Sales Revenue - A\$

	Revenue 2 nd Quarter 31 st December, 2006 (Incl. GST)	Revenue 1 st Quarter 30 th September, 2006 (Incl. GST)
Drillsearch Energy Limited – Australia	\$2,330,436	\$2,473,606
Drillsearch Energy Limited – Canada	\$1,018,947	\$1,431,888
Group Total	\$3,349,383	\$3,895,494

Capital Expenditures – A\$

	Capital Expenditures 2 nd Quarter 31 st December, 2006 (Incl. GST)	Capital Expenditures 2 nd Quarter 30 th September, 2006 (Incl. GST)
Drillsearch Energy Limited – Australia	\$5,267,562	\$5,282,562
Drillsearch Energy Limited – Canada	\$424,834	\$671,372
Total Capital Expenditures	\$5,692,398	\$5,953,934

[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 16 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 gas wells to gas transportation lines for processing and sale
tcf	Trillion cubic feet