

12 August 2008

**ASX Code: DLS**  
**Valuation: 7.0c**  
**Spec Buy**

# Drillsearch Energy Ltd

## Producer with upside...

### Capital Structure

Sector	Oil & Gas
Share Price	4.6c
Target Price	7.0c
Fully Paid Ordinary Shares	1,680m
Options	0.00m
Market Capitalisation (undiluted)	\$82.3m
Cash (August 2008)	\$11.5m
Share Price Year High-Low	20c - 3.6c

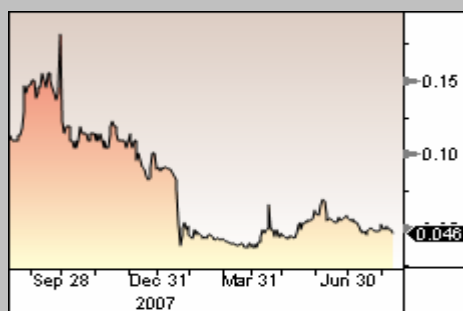
### Directors

Peter P Simpson	Non-Executive Chairman
David Williams	Managing Director
Maxim Carling	Non-Executive Director
Chris Carty	Director/ Chief Operating Officer
Daryl Dixon	Non-Executive Director
Peter Hopkins	Non-Executive Director
William Johnson	Director/ Company Secretary
Jim McKerlie	Non-Executive Director
Peter Wicks	Non-Executive Director

### Analyst

Senior Research Analyst  
 Simon Guzowski  
 +61 2 8198 7245

### Share Price Performance



### Cash flow positive oil junior positioned to weather the credit storm

- The merger between Drillsearch Energy Limited ("Drillsearch") and Great Artesian Oil and Gas Limited ("Great Artesian") is signed, sealed and delivered. Scale benefits from the merger will include improved access to capital, a more robust and diversified development pipeline as well as superior access to technical and managerial talent. The merged group is net debt free.
- A cash flow positive jnr with exploration upside and low geopolitical risk. As the credit storm clouds gather, investor appetite will continue to favour cash flow positive oil plays like Drillsearch. Low geopolitical risk and blue chip joint venture partners such as Beach Petroleum, Santos, and ExxonMobil add credibility.
- On track to break yet another production record. The purchase of an additional 1% interest in Tintaburra will immediately generate an additional 10,740boe pa and a larger stake in Circumpacific an immediate 21,458boe pa. Relatively low risk Near Field Exploration (NFE) may also support a further uplift in production for FY2009.
- Cool Energy earnings potential. A 60mmcf/d Cool Energy carbon removal plant is under evaluation with results due in late 2008. If economic, it would pave the way for high carbon gas reserves in PEL106 to be commercialized. A Cool Energy plant may also generate earnings from carbon sales and the processing of gas from neighbouring fields.

### More exploration prospects than you can poke a rig at

- A busy drilling schedule of high impact and low impact targets lies ahead. Larger targets include the Marina 2 prospect (WA 318P) scheduled for drilling in mid 2009 for a potential 200mmbbl in place, the offshore Otway Basin EPP27 (40%) prospect for a 6mmbbl targeted in Q1 2009, and 2 wells by mid 2009 on PEL91 (60%). In addition PPL 244P (5%) may be drilled in 2009 for a possible 1TCF of gas and 140mmbbls condensate prospective and Drillsearch has retained an economic interest in Turtle-Barnett with an estimated 70-90mmb oil in place.
- Strategic land holdings to fuel the medium to long term exploration pipeline. Drillsearch has secured a substantial strategic land holding in the Cooper-Eromanga Basin. Drillsearch was awarded an additional 14,000km<sup>2</sup> of new permits in November 2007 bringing total land holdings 34,385km<sup>2</sup> on dry land and 17,734km<sup>2</sup> in offshore areas.
- The merged group boasts a strong reserve base of 2,758,717 boe. Tintaburra ATP 299P (11%), Naccowlah ATP 259P (2%) and a variety of oil fields in Canada via a 79.56% interest in Circumpacific contain 2P reserves of 1,334,119 boe, 282,998 boe and 336,080 boe respectively. The merger with Great Artesian has contributed 2P gas reserves in Middleton-1, Udacha-1, and Kiana-1 of 810,000 boe.

### Value at current levels

- Our base case valuation means any success from exploration, cool energy project economics, savvy mergers or oil price strength can bring upside.

Potential Earnings	2008F	2009F	2010F	2011F	2012F
Revenue	\$21.7m	\$37.2m	\$32.2m	\$27.5m	\$21.4m
NPAT	-\$12.3m	\$2.5m	\$5.2m	\$8.9m	\$9.8m
EPS (cents)	-0.73c	0.14c	0.27c	0.45c	0.46c
Forward P/E	NA	34.0	17.9	11.0	10.6

Source: wise-ow.com, Drillsearch Energy.

## Merger delivers scale

The merged Australian group will not only be cash flow positive from day one, but also reap in excess of \$1.5 million in corporate synergies (primarily head office, salary/consultancy & ASX listing fees), boast \$11.5m in cash, and be bigger. Circumpacific is also now cash flow positive and targeting a reduction in general and administration costs of CDN \$300k and boasts CDN\$2 million in cash. Scale counts when it comes to funding projects and securing or retaining quality staff.

The merged group will also offer a more diverse range of exploration assets at various stages of development. Exploration tenements range from high risk high return targets such as Marina 2 (200mboe) and Turtle Barnett (90mboe) to low risk lower return targets such as near field exploration drilling that should add to incremental production growth on the Tintaburra and Naccowlah fields.

Cash reserves may receive an additional lift through the rationalisation of 47,910,488 Drillsearch shares that were held by Great Artesian as treasury stock and/or the sale of non core exploration assets.

## Cool Energy upside

High levels of carbon content have prevented Great Artesian gas discoveries in PEL106 from being commercialised. To commercialise these discoveries, and justify further exploration for gas assets in this region, a 60mmcf/d gas processing and carbon removal plant is being evaluated using the Cool Energy CyroCell® Technology.

### A Cool Energy plant may add value on several fronts

- Gas sales
- Condensate and LPG sales
- Liquid carbon sales
- Exposure to a bullish outlook for gas prices
- Gas processing revenue

Firstly and most obviously, gas discoveries in PEL106 will finally become open to commercialisation and generate gas sales, as carbon levels may be reduced to saleable levels. Of the five gas discoveries in PEL106, two have been tested for flow rates. Middleton has flowed at 12mcfpd, and Udacha at 1-2mcfpd, discoveries at Rossco, Cadenza and Paprika have not been tested. The PEL106 field remains under explored and may yet yield more productive potential.

Liquid carbon sales may be negotiated with neighboring fields to lift their flow rates. Liquid carbon is also preferable in a carbon conscious world where carbon credits are on the path to becoming a reality.

BG Group's bid for Origin, in combination with a proposed LNG export terminal at Gladstone is bullish for Australian east coast gas prices over the medium term. Should an LNG export terminal go ahead, local gas prices of \$3-4 per mmcf could approach international prices which currently stand at ~\$10 per mmcf as more local gas gets sent to offshore markets.

As there is only one carbon removal plant operating in the Cooper Basin, there is opportunity for a second plant to be established as the only alternative. The current monopoly has created a favourable pricing environment for an alternative plant and will make it easier to source joint venture partners. A viable carbon removal plant would open the door to potential earnings from the processing of untapped high carbon gas discoveries typical of the Cooper Basin.

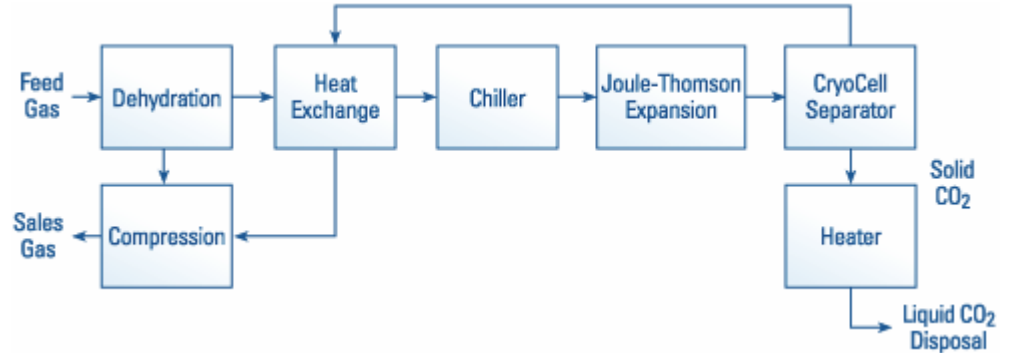
### The Cool Energy CyroCell® Technology

Benefits of CyroCell® over competing methods include lower capex and lower ongoing opex and chemical inputs like solvents are not required. By lower capex we are talking \$100-150m, however joint venture partners and government funding would ease this burden should the project proceed. As carbon is not released into the atmosphere, this plant will find it easier to win government support thanks to its green credentials.

A CyroCell demonstration plant is located at the Xyris gas field in the Perth Basin, which is operated by ARC Energy Ltd. This plant has successfully processed sour gas with carbon levels in excess of 60%. Gas discovered in PEL106 contains up to 40% carbon, which early results suggest could be easily removed by this technology.

The plant is relatively simple. It cools sour gas until the contained CO<sub>2</sub> becomes a solid that then separates from gas with the help of gravity. The CO<sub>2</sub> is then collected and reheated until it becomes liquid. This liquid CO<sub>2</sub> would most likely find itself sold to neighbouring Cooper Basin fields for injection into producing fields to boost flow rates.

**Table 1:** Cool Energy CyroCell® flow sheet.



Source: Cool Energy.

There is an estimated 75bcf of high carbon gas reserves in the Cooper-Eromanga basin that could be commercialised if this plant is proven viable and built.

The remaining hurdle for a Cool Energy plant is project economics. An earlier 20mmcf/d plant design displayed marginal economics, however economies of scale could change this under a proposed 60mmcf/d design.

As the first commercial application of this technology, it may be too early to pop the champagne just yet. However there is cause for optimism. Trials at the pilot Xyris plant have been very successful to date. The blue chip names behind the technology also bring credibility. Cool Energy is partly owned by Woodside Petroleum and Shell Technology Ventures and the pilot plant is part owned by ARC Energy and Origin Energy.

**Table 2:** A demonstration plant has successfully processed gas which contains 60% carbon.



Source: Great Artesian Oil & Gas, Cool Energy.

## Production is rising

### A record year has just passed...

As credit markets are expected to tighten further Drillsearch is in a good position as a cash flow positive producer. The current work schedule is expected to keep Drillsearch cash flow positive for at least the next 18 months or longer if any of the exploration projects are successful or extended through a re-organisation of exploration and development activities.

Sales volumes on a merged basis reached an unaudited record 227,466 boe for the 2007/08 financial year.

Production by field for the merged group for year ending June 2008 includes:

- Tintaburra ATP299P (10% moving to 11% effective 1 July 2008) & Naccowlah ATP 259 (2%): A combined 135,342 boe net to Drillsearch.
- Pickanjinie 10 PL5 PK (75%): Gas flowed at an average rate of 75,000 cfg/d to produce an estimated 5,100 boe net to Drillsearch.
- Kiana (30%): Produced 5,116 boe net to Drillsearch.
- Circumpacific (62.97% moving to 79.56% effective 1 July 2008): produced 87,008 /boe net to Drillsearch.

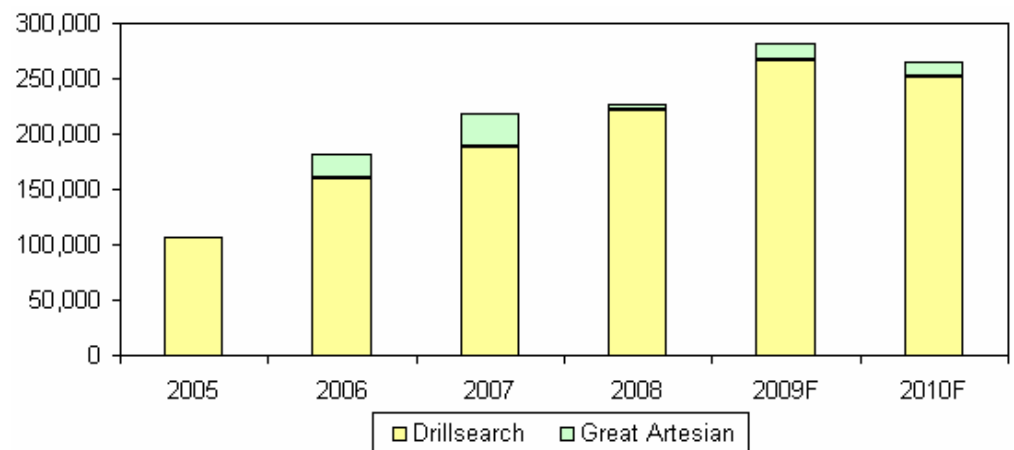
### ...and another record year could be on its way

Drillsearch is on track to deliver another set of record production numbers in the current financial year.

Drillsearch has negotiated higher working interests in key producing assets. The working interest in Tintaburra now stands at 11%, up from 10% and a conversion of debt to equity in Circumpacific has lifted ownership from 62.97% to 79.56%. These changes in themselves are likely to lift production to a new record in the coming year.

In addition to these higher working interests, we expect near field exploration drilling and water injection programs to have a positive impact on flow rates at Tintaburra. Further drilling at Kiana may also increase the geological understanding of that field and lift flow rates.

**Table 3:** Historic & forecast production on a merged group basis.



Source: wise-owl.com, Drillsearch Energy.

## Reserve Base

The merged group boasts 2P reserves of 2,758,717 boe. Which will generate cash while Drillsearch continues its search for a company making exploration strike. Even at the record production rate of 222,350 boe achieved over the 2007/08 financial year, these reserves would last for more than 10 years.

From here the reserve base will be built through exploration drilling, and farming out of new tenements in the Cooper-Eromanga Basin once native title is finalised. An ongoing merger and acquisition strategy may also lift reserves. To be immediately value accretive to shareholders mergers will need to lift 2P reserves on a per share basis.

**Table 4:** Current net 2P reserves for the merged group

Block	Barrels of Oil Equivalent	Evaluation Date
Tintaburra ATP 299P*	1,334,119	Dec 2007
Naccowlah ATP 259P	282,998	Dec 2007
Circumpacific Canada**	336,080	June 2007
Middleton-1, Udacha-1, Kiana-1	810,000	Various
<b>Total</b>	<b>2,763,197</b>	

**Source:** Drillsearch Energy Ltd, Great Artesian Oil and Gas Ltd, wise-owl.com.  
 Note: \*based on 11% Tintaburra interest \*\*based on 79.56% Circumpacific interest.

## Independent Valuation of Exploration Assets

MBA Petroleum consultants prepared an independent technical report to assist with the valuation of the exploration and production assets of Great Artesian and Drillsearch Energy. MBA have assumed a variety of development scenarios to arrive at a low case and high case value for each asset. An oil price assumption of \$130 for 2008, \$100 for 2009, \$95 for 2010 and \$75-85 thereafter was used.

**Table 5:** Independent exploration asset valuation

Block	Basin	Low valuation (AUD million)	High valuation (AUD million)
Great Artesian			
PEL 91	Cooper-Eromanga Basin	1.486	3.713
PEL 106	Cooper-Eromanga Basin	0.100	0.250
PEL 106 Spinel	Cooper-Eromanga Basin	0.500	2.000
PEL 106 Beach	Cooper-Eromanga Basin	1.00	3.00
PEL 107	Cooper-Eromanga Basin	1.520	3.800
ATP539P	Cooper-Eromanga Basin	0.675	1.688
ATP549P Cypress	Cooper-Eromanga Basin	0.550	1.375
ATP549P West	Cooper-Eromanga Basin	0.080	0.200
ATP552P	Surat Basin	0.550	1.375
EPP 27	Otway Basin	0.100	0.250
VIC/P63	Gippsland Basin	0.150	0.450
VIC/P64	Gippsland Basin	0.150	0.450
T46/P	Gippsland Basin	0.150	0.450
Drillsearch Energy			
ATP 783P	Cooper-Eromanga Basin	1.800	4.400
ATP 927P	Cooper-Eromanga Basin	0.156	0.400
ATP 823P	Surat Basin	2.700	5.400
WA-318P	Bonaparte Basin	1.960	3.660
Turtle Barnett*	Bonaparte Basin	0.235	0.586
WA-352P	Carnarvon Basin	-	1.023
PPL 244	South Papuan Basin	-	0.100
<b>Total</b>		<b>\$13.86m</b>	<b>\$34.57m</b>

**Source:** MBA

\*Note: DVM International has acquired the Turtle Barnett field (regulatory approvals pending) however Drillsearch has retained an economic interest that includes milestone payments and an ongoing 2% well head royalty.

## High Impact Exploration Upside

There are potentially four high impact drill targets to watch for in 2009, three of these are in known oil provinces.

### Marina 2 WA 318P (25%)

An offshore joint venture with ExxonMobil targeting more than 200mboe in place. A drill hole in late 2007 encountered 5 gas zones, confirming the presence of hydrocarbons however these were uneconomic. An additional 1,000km of 2D seismic funded by ExxonMobil will be used to plan additional drilling which is scheduled for June 2009, subject to rig availability.

### Otway Basin EPP 27 (40%)

Located on offshore South Australia, the Otway Basin has yielded no commercial discoveries. Yet it is considered to hold areas of trapped oil. Oilex is the operator of this field and has flagged possible drilling in late 2008 or Q1 2009 for a targeted 6mmbbls. A suitable drilling rig is yet to be confirmed. Drillsearch Energy will be free carried for this first exploration well.

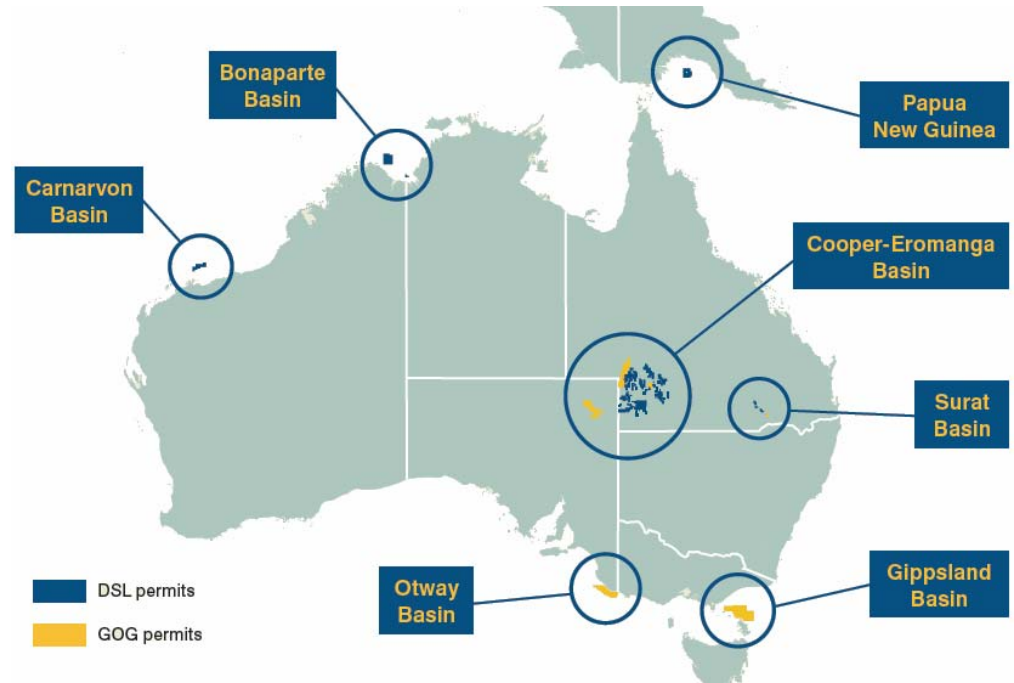
### PPL 244P (5%)

Offshore Gulf of Papua Basin, PNG, targeting a possible 1TCF of gas and 140mmbbls condensates. This block is operated by Canadian oil major Talisman Energy Inc for possible drilling in 2009.

### PEL 91 (60%)

A joint venture with Beach Petroleum is located on an 'oil fairway' between the oil discoveries Sellicks, Christies and Callawonga to the southwest, plus Growler and Wirraway to the northeast. Two wells drilled on this block to date have found uncommercial oil discoveries. An acquisition of 130km<sup>2</sup> of 3D seismic has been completed that will guide two additional wells which are scheduled for drilling by mid 2009.

**Table 6:** The merged group has a diverse range of low geopolitical risk exploration assets.



Source: Drillsearch Energy, Great Artesian Oil & Gas.

## Low risk near field exploration to lift production

Tintaburra and Naccowlah currently stand as the main producing fields for Drillsearch. The production rates of these fields have incrementally increased year on year as additional wells have been drilled into the periphery of their structures to deliver additional production.

Four NFE wells are waiting to come online at the Naccowlah field to add ~125bopd (Drillsearch share 2.5bopd). In addition to this 3 near field exploration wells at Tintaburra are scheduled for drilling in late 2008 or early 2009. The operator of these fields, Santos, is also

expected to pursue some development and appraisal wells on these blocks through to the end of 2008 which may lift production further.

## Strategic land holdings will fuel the future

The merged group has substantial land interests including some 34,385km<sup>2</sup> of land onshore and 17,734km<sup>2</sup> of area offshore in which it has an interest.

In November 2007, Drillsearch was awarded an additional 14,000km<sup>2</sup> of blocks in the Cooper-Eromanga Basins. The blocks are 100% owned by Drillsearch and its 79.56% owned Canadian subsidiary Circumpacific. Many of these blocks are adjacent to producing oil and gas fields with proven hydrocarbon systems, and will be used to drive exploration and farmout opportunities moving forward.

Drillsearch has started to compile all of the publicly available well logs and seismic data for these new blocks. The 2008 program for this land is focused on securing native title approvals and a regional 2D seismic study.

## Seismic Galore

Seismic activity will dominate news flow as Drillsearch evaluates its substantial land holdings for suitable drilling targets.

### Tintaburra and Naccowlah ATP 299P (11%) ATP 259P (2%)

The 2008 work program includes 290km<sup>2</sup> of 3D seismic.

### Chandos ATP 783P (100%)

Chandos was drilled in 1966 demonstrating good oil shows that are believed to have been drilled off structure. Santos will shortly be conducting a 200km<sup>2</sup> 3D seismic program which will earn Santos a 30% interest in this promising block.

### ATP 823P (100%)

A 100km<sup>2</sup> 3D seismic program is currently underway over an area along trend with existing producing fields in the Surat Basin. Initial mapping of vintage data has identified leads with an estimated 19mmbbls oil in place.

### Turtle-Barnett WA-13R, NT/RL-3 (0%)

Seismic is likely to be conducted by DVM who is looking to acquire this block. Investors will continue to watch progress on this well as Drillsearch will retain an economic interest. Milestone payments include a \$500k initial payment upon the drilling of a well into either lease, followed by a \$1.5m payment should production be achieved and an ongoing 2% well head royalty.

### Marina 2 WA 318P (25%)

An additional 1,000km of 2D seismic has been acquired this year to plan additional drilling scheduled for June 2009. Greater than 200mmbbls is targeted.

### PEL91 (60%)

The acquisition of 130km<sup>2</sup> of 3D seismic has been completed which will guide two wells that are scheduled for drilling by mid 2009.

### VICP63, P64 and T46p (100%)

Located in the Gippsland Basin, offshore Victoria and Tasmania. Seismic reprocessing is underway.

## Opportunity for internal consolidation

Not only is Drillsearch looking to drive consolidation among its peers to deliver scale, it is also consolidating its own assets to focus on areas that will maximise shareholder value. In our view, this simplification of the Drillsearch 'story' could form an important driver of value in itself as investor understanding of this business improves.

## Financial Model

Our financial model provides a base case valuation for Drillsearch. All of our modelled increase in oil production has come from a larger stake in Tintaburra (from 10% to 11%), a larger stake in Circumpacific (62.97% to 79.56%), combined with relatively low risk near field exploration at Tintaburra and Naccowlah. We have also assumed that the Kiana well will stabilise around its current rate of production of 40bopd before declining. This leaves any earnings accretive outcome as pure upside for this valuation.

In our view, the most likely sources of earnings upside include exploration success, an economic coal energy plant, and further rises in the oil price.

## Bulls and Bears

### The Bulls Say



- The emergence of China and India is set to strain oil markets for the foreseeable future.
- As a cash flow positive producer, Drillsearch is well positioned to weather the credit storm.
- A carefully executed merger and acquisition strategy can deliver value on a per share basis in terms of earnings, reserves and exploration upside, all of which could drive a share price re-rating.
- Tight credit conditions will strain the balance sheets of many junior exploration companies and depress share prices of companies reliant on capital injections. This may create attractive acquisition opportunities.
- Scale of the merged group is approaching the critical \$100m market capitalisation where institutional interest can start to form.
- As a merged group, scale will make it easier to find and retain talent, secure funding, and take on higher impact projects.
- Divestment of non-core prospects will simplify the Drillsearch story for investors and increase organisational focus.
- The Cool Energy plant under evaluation offers earnings upside. The commercialisation of Cooper-Eromanga gas interests, as well as the ability to process gas from neighbouring fields and generate liquid carbon sales could all bring higher earnings.

### The Bears Say



- Demand destruction could send the oil price back towards US\$100 a barrel.
- Tight credit markets will reduce the capacity of oil juniors to raise capital and ramp up activity.
- A merger and acquisition strategy, if poorly executed, brings a risk of overpaying for assets and diluting shareholder value.
- Scale on its own will not be enough to drive share holder returns. The market will need to see value created on a per share basis to re-rate Drillsearch to the upside.
- The sheer quantity of tenements held by Drillsearch makes the task of prioritisation more difficult.
- A large board of directors may slow decision making.
- The Cool Energy plant may prove uneconomic, and leave Cooper-Eromanga gas reserves commercialised.

## Directors

### **Peter Simpson** **Chairman of Directors**

Mr. Simpson became Non-Executive Chairman at the 2006 AGM. Mr. Simpson then became Executive Chairman of Drillsearch from the 19th October, 2007 until the successful conclusion and implementation of the merger with Great Artesian on 12th August 2008, and continues to Chair the new board moving forward and is a member of the Drillsearch audit and risk committee.

Mr. Simpson has brought a wealth of business, commercial and asset acquisition/realization experience to Drillsearch. Mr. Simpson is Executive Chairman of Bridge Finance (Australia) and Oddlot Shares and Securities, which have broad interests including but not limited to horticulture, publishing, resources and asset realization. Mr. Simpson is the Managing Director and Chief Operating Officer of Oil and Gas producer Circumpacific Energy Corporation Canada (TSX.V:CER). Mr. Simpson is long term Chairman of Eudunda Farmers' Limited a Public unlisted property and supermarket group. Mr. Simpson is also a Non-Executive director of Bentley International (ASX:BEL) an Australian International LIC and is a Director and major shareholder of Wirra Wirra Vineyards in McLaren Vale. Date of Drillsearch appointment: 24 October 2006.

### **David Williams** **Managing Director**

David was the Managing Director of Great Artesian prior to the merger with Drillsearch. David has a legal and commercial background in several industries including energy. He has experience with gas infrastructure and pipelines as general counsel and company secretary to AlintaGas and as chief executive of Epic Energy. Previously a partner with Freehills and Ebsworth & Ebsworth, and has qualifications in commerce and law. Date of appointment, Great Artesian: 14 September 2007, appointed Drillsearch 12 August 2008.

### **Maxim Carling** **Non-Executive Director**

Maxim is the founding director of Carling Capital Partners Pty Ltd. He has had 26 years of corporate financial management and investment banking experience. During his career he has focused on providing strategic corporate advice in many industries including oil and gas and natural resources. Date of Drillsearch appointment: 17 April 2008.

### **Chris Carty** **Director / Chief Operating Officer**

Mr. Carty joined Great Artesian in 2005 as Exploration Manager. He has wide experience of the domestic and international upstream oil industry. Following a period with Esso Australia supervising seismic acquisition activities in Australia, Papua New Guinea, Thailand and Vietnam, he joined Mobil Oil in the USA and was involved in exploring areas in West Texas and the Gulf of Mexico. Since returning to Australia in 1992, he has held senior exploration and management positions with Bridge Oil, Capital Energy, Stirling Resources and Eastern Star Gas and has consulted to a number of other companies included New Zealand Oil and Gas and Santos. He has a BSc (Hon) and is a member of the Australian Society of Exploration Geophysicists, the Society of Exploration Geophysicists, Institute of Company Directors and the Petroleum Exploration Society of Australia. Date of appointment, Great Artesian: 31 March 2007, appointed Drillsearch 12 August 2008.

### **Daryl Dixon** **Non-Executive Director**

Daryl is an economist who has worked as an academic and for the International Monetary Fund, the Federal Treasury, Finance and Social Security departments. He has also acted as a consultant to stockbrokers and finance sector organisations. Currently he is Executive Chairman of Dixon Advisory and Superannuation Services and a director of several unlisted companies including the HCF Life Insurance Company. He is a member of the Drillsearch audit and risk committee. Date of appointment: 24 October 2006.

### **Peter Hopkins** **Non-Executive Director**

Peter is a solicitor who has specialised in corporate and resources law for more than 25 years. He has advised listed and unlisted companies in the oil and gas sector and is an experienced company director. Now running his own practice, he was previously a partner with Phillips Fox and is a past national president of AMPLA Ltd, the resources and energy law association.

Date of appointment, Great Artesian: 29 November 2006, appointed Drillsearch 12 August 2008.

**William Johnson**  
**Director / Company Secretary**

William commenced his career in resource exploration and has most recently held senior management and executive roles in a number of public companies in Australia, New Zealand and Asia. He brings a considerable depth of experience in business strategy and investment analysis and execution. He is also a director of Strike Resources Ltd, Scarborough Equities Ltd, Sofcom Ltd and Orion Equities Ltd, all ASX listed companies. He was formerly a director of Altera Capital Ltd. He is the Chairman of the Drillsearch audit and risk committee. Date of appointment: 24 October 2006.

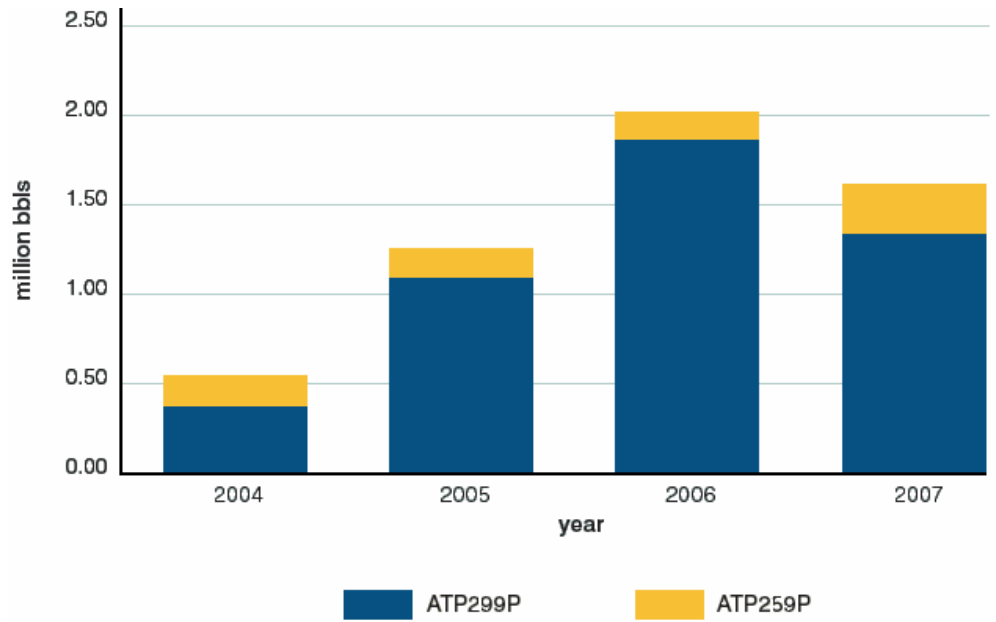
**Jim McKerlie**  
**Non-Executive Director**

Mr. McKerlie is a chartered accountant and business consultant and has had a global career consulting to small and large companies on growth strategies as a managing partner for KPMG and Deloitte. He has extensive corporate experience as director and chairman of private and public companies. Jim is group chief executive of Bullseye, which he founded. Date of appointment, Great Artesian: 14 September 2007, appointed Drillsearch 12 August 2008.

**Peter Wicks**  
**Non-Executive Director**

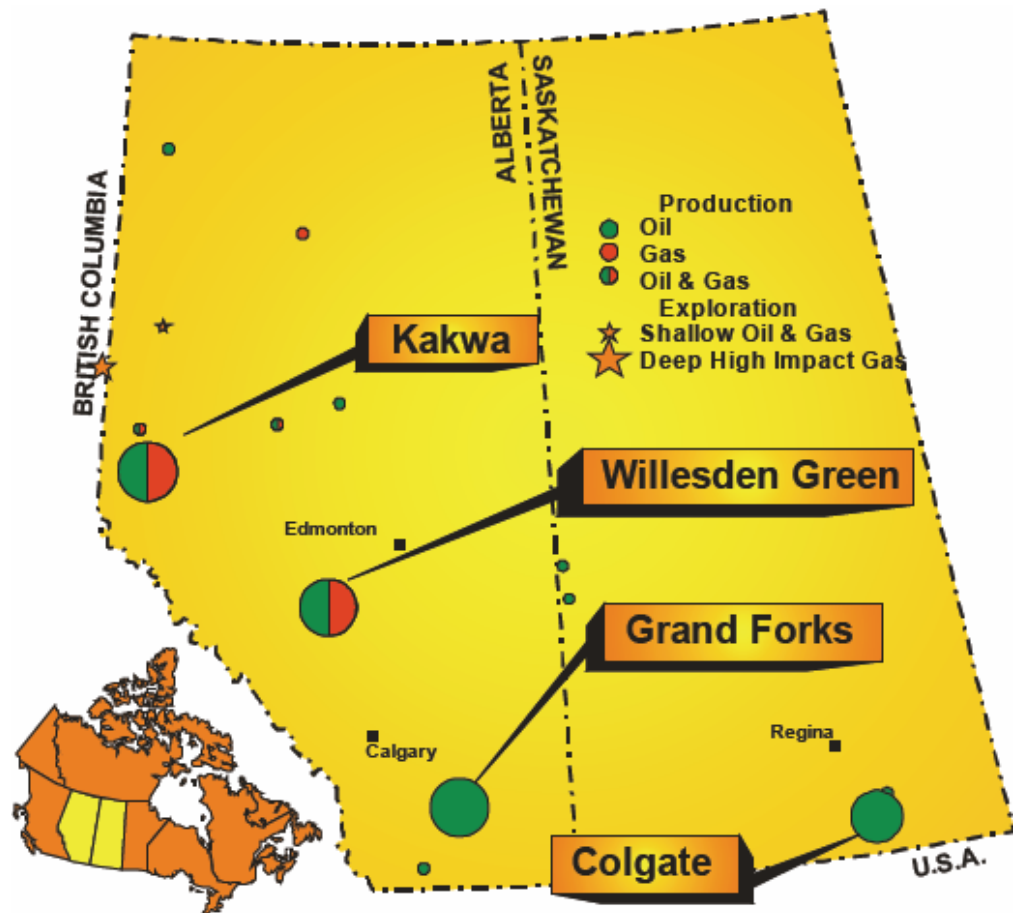
Peter is a Chartered Accountant and was with Hartogen Energy for 11 years, including 6 years as Finance Director. He brings an in-depth knowledge of the Drillsearch Cooper-Eromanga blocks and the various market participants in those and contiguous areas. He also has experience in Canada where he founded an oil and gas company that was ultimately listed on the Toronto Stock Exchange. He has served as Chairman of Republic Gold Ltd since 2005, overseeing that company's recapitalisation and the expansion of its mineral portfolio. Date of appointment: 17 April 2008.

**Table 7:** 2P Reserve growth in south west Queensland has been strong.



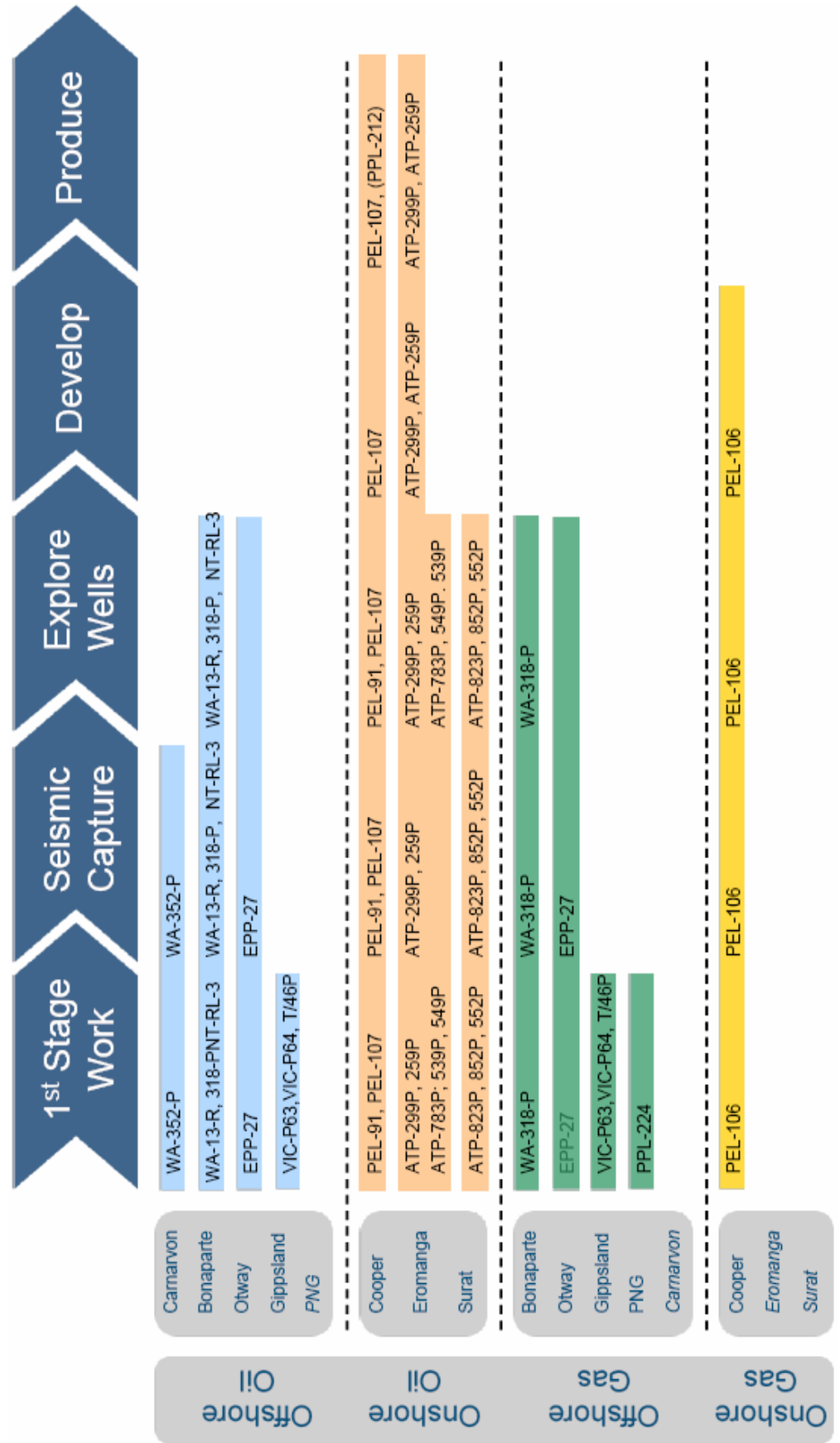
Source: Drillsearch Energy Ltd, wise-owl.com.  
Note: Incorporates 11% Tintaburra interest.

**Table 8:** Drillsearch now owns 79.56% of Circumpacific which holds producing assets in Canada.



Source: Drillsearch Energy Ltd

Table 9: A busy schedule of activity, however timing is not concrete.



Source: Drillsearch Energy Ltd

## Financial Model

Year Ending June (\$A millions)	2008F	2009F	2010F	2011F	2012F	2013F
<b>Profit &amp; Loss</b>						
Sales Revenue	21.7	37.3	32.2	27.6	21.4	19.5
Interest Revenue	0.1	0.4	1.5	2.7	4.0	5.2
Operating Expenses	-8.6	-15.5	-14.1	-11.5	-8.4	-7.3
Corporate & Admin	-4.9	-8.9	-8.1	-6.6	-4.8	-4.2
Exploration Expenses	-12.9	-8.5	-4.2	-1.0	0.0	0.0
<b>EBITDA</b>	-4.6	4.8	7.4	11.2	12.1	13.2
Depreciation & Amortisation	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
<b>EBIT</b>	-6.8	2.6	5.2	9.0	9.9	11.0
Interest Expense	-2.3					
<b>Pre-tax profit</b>	-9.1	2.6	5.2	9.0	9.9	11.0
Tax expense	-3.2					
Abnormals						
<b>NPAT</b>	-12.3	2.6	5.2	9.0	9.9	11.0
<b>Cash Flow</b>						
NPAT	-12.3	2.6	5.2	9.0	9.9	11.0
Depreciation / amortisation	2.2	2.2	2.2	2.2	2.2	2.2
Other	12.9	8.5	4.2	1.0		
<b>Operating cash flow</b>	2.8	13.3	11.6	12.2	12.1	13.2
Capex	-12.9	-8.5	-4.2	-1.0		
Disposals / (Acquisitions)						
Working Capital	5.8	23.1	19.9	18.9	17.2	17.9
<b>Free cash flow</b>	-7.0	14.6	15.7	17.8	17.2	17.9
Dividends						
New equity	38.6	5.0	5.3	5.6	6.0	6.3
Debt drawdown / (repayment)	-17.5					
<b>Net cash increase / (decrease)</b>	14.1	19.6	21.0	23.5	23.2	24.2
Cash End of Period	8.0	27.6	48.7	72.2	95.4	119.6
Receivables	6.2	9.9	8.3	6.7	5.2	4.7
<b>Share Price</b>						
Share Price	0.049					
EPS (cents)	-0.73	0.14	0.27	0.45	0.46	0.49
EPS (cents) fully diluted	-0.73	0.14	0.27	0.45	0.46	0.49
EPS growth rate	NA	120%	90%	63%	4%	5%
PE	NA	34.0	17.9	11.0	10.6	10.0
<b>Shares on issue</b>						
Shares (m)	1,680	1,782	1,890	2,005	2,126	2,255
Fully diluted (m)	1,680	1,782	1,890	2,005	2,126	2,255
<b>Production assumptions</b>						
Oil Production (boe)	222,350	280,980	264,283	234,237	211,387	192,421
Oil Revenue (\$AUD m)	22	34	29	23	18	16
Oil Price (bbl)	122	110	99	85	85	85
Exchange rate	0.95	0.92	0.90	0.84	0.84	0.84

## Valuation: Sum of parts method

### DCF enterprise value calculation

#### *Terminal value calculation*

Terminal value growth rate					4.0%
Projected free cash flow (m)					13.04
Discount rate (WACC)					13.5%
Terminal enterprise value (m)					137.30
Implied terminal value EBITDA multiple					10.4x

#### Discounted cash flows at WACC

Unlevered free cash flow (m)	-	18.54	5.00	7.65	8.26	6.66
Present value of terminal value (m)						72.89
Total discounted cash flows (m)						81.93

#### Summary DCF valuation

DCF enterprise value (m)	81.93
Less: Net debt	

Equity value: (m)	81.93
Shares: (m)	1,679.92
DCF value per share \$AUD:	\$ 0.05

Sum of parts	Total (m)	Cents per share
Discounted Cash Flow	81.93	4.88
Exploration	24.22	1.44
Cash	11.50	0.68
<b>Total \$AUD</b>	<b>114.15</b>	<b>7.00</b>

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<b>Speculative Buy</b>	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
<b>Hold</b>	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
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