

**Activities Report
September 2008 Quarter**

Drillsearch Energy Limited, (ASX:DLS) which listed on the ASX on 2 July 1987, explores and develops conventional oil and gas projects. Drillsearch Energy has recently merged with Great Artesian Oil and Gas (ASX:GOG), by way of Scheme of Arrangement, details of which were announced on 18 April 2008. The merger between the companies has resulted in a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper and Eromanga Basins in Queensland and South Australia as well as offshore exploration in the Bonaparte, Carnarvon, Otway, and Gippsland Basins. Additionally Drillsearch Energy has interests in PNG and Canada. The company focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, which ensures that any discoveries can be brought into production rapidly.

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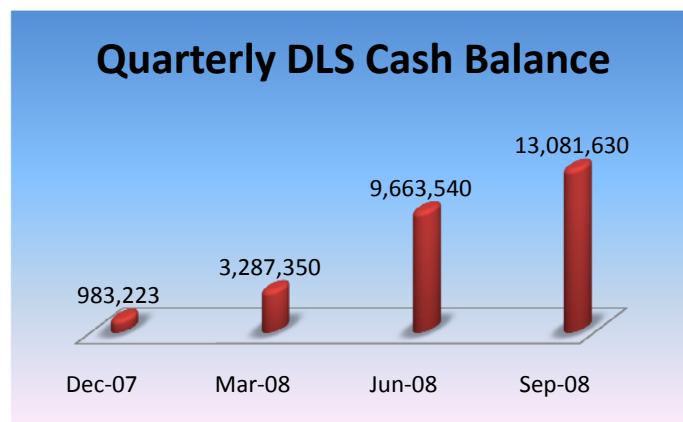
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Highlights

- Increased cash balance by over \$3.4M
- Cash at 30 September 2008 - \$13.08M
- Production remained strong for the Quarter
- Completion of merger with Great Artesian
- New Management team in place
- Acquisition of additional 1% in Tintaburra
- Agreement with Beach Petroleum for drilling 2 wells in PEL 106 – 100% paid for by Beach
- Successful drilling results in Naccowlah block
- Increased ownership in Circumpacific Energy Corporation to 79.5%
- Entered into sale agreement with DVM International for Turtle-Barnett

FinancialCash balance

Drillsearch continued to grow its cash balance during the quarter increasing the cash balance from A\$9,663,540 as at 30 June 2008 to \$13,081,630 as at 30 September 2008. This figures do not include the cash held by Drillsearch's subsidiary, Circumpacific Energy Corporation (TSX.V:CER).

No debt costs outflow

Having paid out the Meridian facility last Quarter, the Company continued its position of remaining debt free during the quarter. Removing the need to service the debt has also improved the cash flow position of the Company during the Quarter.

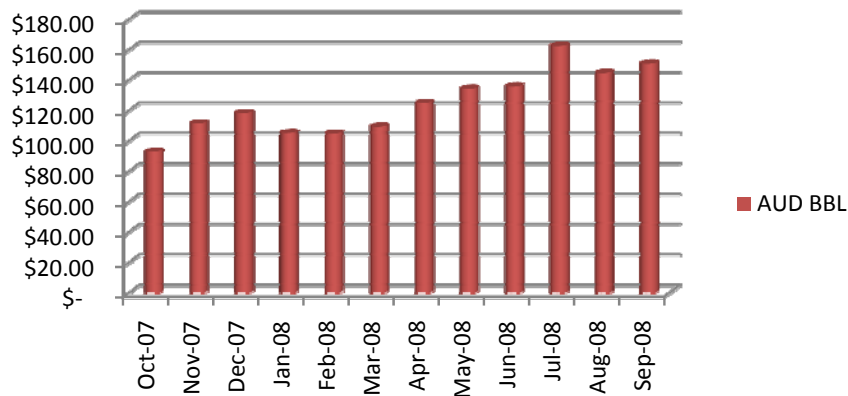
Synergies of merger not fully reflected in quarter

With the implementation of the Merger with Great Artesian in August 2008 we will start to see some of the savings through the synergies between the companies starting to be realised. This will be staggered over the ensuing months

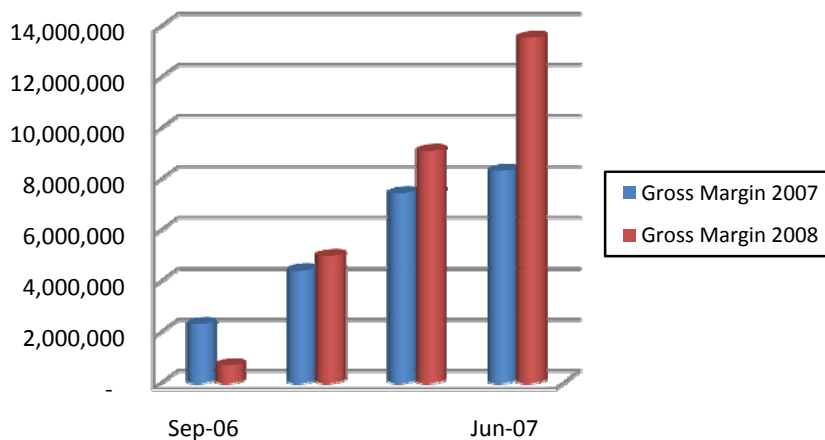
Lifting of oil price (can we demonstrate we get a higher price?)

We have seen a number of dramatic swings in the oil price, but at the same time we have seen almost counterbalancing swings in the exchange rate. In A\$ terms the realised oil price remained high during the quarter.

Realised Oil price per barrel



Net Operating Cash Flow (quarterly cumulative in \$A)



Exploration Expenditure

While there is expected to be a lot of activity this next quarter, the Company is largely carried on this so will not have a big impact on the Company's cash.

Corporate

Completion merger

Much of the focus during this Quarter was on the Merger with Great Artesian Oil and Gas Limited. The shareholders of Great Artesian voted overwhelmingly in favour of the Merger on 28 July 2008 and the Merger received its final approval from the Federal Court on 31 July 2008. Implementation occurred on 12 August 2008 and from the following day all Great Artesian shareholders held Drillsearch shares and the 2 companies started acting as one.

All the former Great Artesian staff and systems have now located in the Drillsearch offices in Spring Street in Sydney and integration of the various accounting and administration systems is well advanced.

The Board and Management have reviewed whether to change the name of the Company, but have concluded to stay with Drillsearch Energy Limited.

New Management team

As a result of the merger, Drillsearch acquired a new Management team.

David Williams, who was the Managing Director of Great Artesian, took on the role of Managing Director Drillsearch. Chris Carty who was the Technical Director of Great Artesian became the Chief Operating Officer and Ian Bucknell who was Great Artesian's Financial Controller and Company Secretary, became the Chief Financial Officer and Company Secretary of Drillsearch. They joined Elizabeth Petrie, Drillsearch's Senior Geologist.

The team have been working through the merged portfolio of permits to determine what rationalisation may be required.

Restructured Board

As advised on 21 October 2008, the Board has completed its review and restructure and the Board is now of a size and structure more appropriate to the Company.

Peter Simpson remains as Chairman, the Non Executive Directors are Russell Langusch, Jim McKerlie and Peter Wicks and David Williams is the Managing Director.

Integration synergies being realised

One of the benefits of the Merger with Great Artesian was cost savings due to synergies between the 2 companies. These savings are starting to be realised in areas such as ASX listing fees, share registry management fees, consultants, Board fees and general administration expenses. Some savings will take a bit longer, such as reduced rental costs, due to the state of the global market impacting the demand for office space.

Other benefits such as access to expertise and systems coming from the new Management team are already showing a more focused and timely approach to running the merged business.

Gas Commercialisation

Progress continued during the Quarter on the gas processing facility project. The first phase of the detailed Front End Engineering and Design (“FEED”) of the plant was completed and Drillsearch now has detailed drawings and cost estimations of the plant. The Quarter was largely devoted to taking this information and running it through economic models to analyse the business case. Discussions with potential business partners and governments were also progressed.

Rationalisation of portfolio

Another of the key planks of the Merger was the ability to look critically at the total Permit portfolio and rationalise that back to a more appropriate and focused bundle.

The rationalisation has started with the determination that the Turtle and Barnett Retention Leases not adding value to the strategic direction of the Company. These were to be allowed to expire, but the Company was approached by DVM International who was interested in taking them over. A sale agreement was entered into and DVM embarked on the process of negotiating with the Regulators to take over the Retention Leases. At the time of writing this would appear to have been unsuccessful. While that would be disappointing, particularly given the number of Retention Leases held by large companies for long periods of time without any activity, the DVM transfer would always have been a potential upside not expected.

The position in relation to EPP 27 also remains unclear but one that is also likely to expire. The Company continues discussions with Oilex (ASX:OEX) to find a solution, but it appears probable that there will be no drilling activity in the Permit. This is a disappointing outcome, but by having a large development pipeline, Drillsearch will be able to switch its attention to other prospective Permits, such as the Marina Block (WA-318P)

Increased Tintaburra interest

At the end of the last financial year, but effective from the commencement of the September 2008 Quarter, Drillsearch acquired a further 1% interest in Tintaburra taking its total effective interest to 11%. The settlement of this acquisition is in the process of finalisation.

With drilling in Tintaburra not occurring in the Quarter and not expected to occur in the December quarter, that acquisition is providing a positive additional cash stream for the Company.

Increased Interest in Circumpacific

In July 2008, Drillsearch finalised a conversion of a large part of the debt owed to it by its subsidiary Circumpacific Energy Corporation, to equity in Circumpacific. This took Drillsearch’s interests from 62.7% to 79.5%.

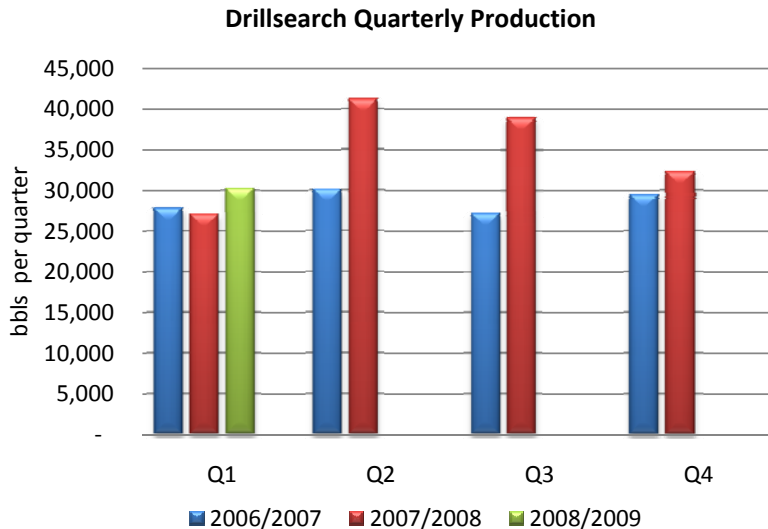
Sale of Turtle-Barnett

Drillsearch entered into a sale agreement of all its interests in the Turtle-Barnett Retention Leases (WA-13-R and NT-RL3) to DVM International Limited (ASX:DVM). The conditions precedent to that sale have largely been satisfied and DVM has been working with the regulators regarding a forward program for those area.

Operations

Production

While production for the quarter was down on the June quarter it was higher than for the same quarter in each of the past 2 years.



Reserves

There is no change to reported reserves for the Naccowlah and Tintaburra blocks as these are only updated at the end of each calendar year by the Operator, Santos. On the other hand Beach Petroleum, as Operator of certain other properties, has provided the following Proved and Probable (2P) reserves updated as of 30 June 2008:

PPL 212 Kiana Oilfield		Reserves remaining at 30 June 2007	2007-2008 Production	Revisions to Reserves	Reserves remaining at 30 June 2008
PPL 212 Kiana Oilfield	(kbbls)	132	17	0	115
	Total (kboe)	132	17	0	115
PEL 106 Middleton gas discovery	Sales Gas (PJ) ¹	4	0	1	5
	LPG (ktonnes)	0	0	21	21
	Condensate (kbbls)	0	0	136	136
	Total (kboe)	688	0	408	1096
PEL 91 Udacha ² gas discovery	Sales Gas ³ (PJ)	0	0	0	0
	Total (kboe)	0	0	0	0

1 - Sales gas includes ethane

2 - Udacha-1 does not yet have 2p reserves attributed to it, however, analysis of results of the extended production test carried out in 2006 indicates gas in place of 3.9 bcf, equating to sales gas potential of 2.5PJ plus 11 ktonnes of LPG and 90 kbbls of condensate..

3 - Sales gas includes ethane and LPG

September Quarter Activities
Naccowlah Block – Cooper Basin QLD (Drillsearch 2%)

Drilling resumed during July with 4 of 5 development wells cased and suspended (C&S) as future oil producers during the quarter. Results of drilling are tabulated below:

Well Name	Spud	Rig Release	TD (m)	Result	Comment
Naccowlah South 17	25-Jul-08	03-Aug-08	1796	P&A	
Naccowlah South 18	05-Aug-08	20-Aug-08	1902	C&S	Basal Birkhead/Hutton oil producer
Naccowlah West 22	22-Aug-08	04-Sep-08	1750	C&S	Basal Birkhead oil producer
Jackson 57	15-Sep-08	23-Sep-08	1514	C&S	Hutton oil producer
Jackson South 15	25-Sep-08	09-Oct-08	1505	C&S	Westbourne oil producer

PEL 91 – Cooper Basin, SA (Drillsearch 60%)

Acquisition of the 137sqkm Modiolus 3D Seismic Survey in the southwest corner of PEL91 was completed on 25 July and data-processing is underway. The Modiolus 3D was a joint survey between the PEL91 and PEL92 joint ventures addressing the structural trend extending north of the Parsons and Callawonga oilfields. The PEL91 joint venture hopes to resume drilling in this area around mid-2009.

WA-318-P – Bonaparte Basin, Offshore WA (Drillsearch 25%)

Processing of the 1000km of 2D seismic data acquired in May 2008 is nearing completion with final data expected to be delivered in early November. The new data was designed to follow-up the Marina-1 gas-condensate discovery drilled in 2007. The joint venture must decide by 12 December 2008 whether to enter Year 6 of the permit term and drill another well as part of the permit work commitment. The JV may seek additional time to interpret the seismic data prior to the drilling commitment.

December Quarter Planned Activities
Naccowlah Block – Cooper Basin, QLD (Drillsearch 2%)

Drilling continues with plans for 8 more wells before year end, including further development/appraisal wells at Jackson South, Jackson East, Watson and Chilla plus one exploration well at Watkins. Drilling results since 30 September are shown below:

Well Name	Spud	Rig Release	TD (m)	Result	Comment
Jackson South 14	11-Oct-08	22-Oct-08	1591	P&A	
Jackson South 16	24-Oct-08				Currently drilling

Tintaburra Block – Cooper Basin, QLD (Drillsearch 11%)

The current permit term of ATP299P expires on 31 December 2008. The joint venture is in the process of applying to renew the permit for a further 4 year term. As part of the renewal process part of the permit (138 of the current 417 sub-blocks) must be relinquished. Drilling is expected to resume at Tintaburra following the Naccowlah campaign in late December or early January.

PEL 106 – Cooper Basin, SA (Drillsearch 100%)

Beach Petroleum is drilling two wells pursuant to a farmin agreement for the Beach Farmin Block, which is in the south western quarter of PEL 106. Beach is to fully fund and drill 2 wells in the Block and, as a result, Beach will earn a 50% participating interest in the Block. The first well, Brownlow-1, was spudded on 19 October and will test a structural-stratigraphic trap updip to the Middleton gas discovery. The

second, Canunda-1, will follow immediately after Brownlow-1 and will test a separate four-way dip closure located updip to the Paprika gas discovery.

PEL 106 was renewed effective 9 October 2008 for a final five year term expiring 8 October 2013. The renewed area has been reduced to 504sqkm following a 50% relinquishment.

ATP 539P – Cooper Basin, QLD (Drillsearch 100%)

Under terms of a revised farm in agreement with Bandanna Energy (formerly Enterprise Energy), Bandanna will earn a 50% interest in the block by fully funding a minimum 50km 2D seismic survey and funding 50% of two wells to be drilled during the current permit term by 31 January 2009. Under a separate agreement Red Sky Energy will fund 50% of the first well to earn 25% of any discovery. Acquisition of the 50km 'Sungai' 2D Seismic Survey was carried out during 23-28 October 2008.

WA-352-P – Carnarvon Basin, Offshore WA (Drillsearch 100%)

Preparations are well advanced for the acquisition of 300km of 2D seismic data in late December, using the CGGVeritas seismic vessel the 'Pacific Sword'. The seismic program is designed to delineate a number of structural leads updip to the Amulet-1 oil discovery. This will complete the Year 3 work commitment.

For further information contact:

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