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## Appendix 4D

For the half-year ended 31 December 2011

Previous corresponding period: Half-year ended 31 December 2010

### Results for announcement to the market

#### Key information

				<b>\$000</b>
Revenues from ordinary activities	Decreased	48%	to	4,641
Loss from continuing operations after tax attributed to members	Decreased	76%	to	(1,257)
Loss for the period attributed to members	Decreased	71%	to	(1,257)
Net asset per security (cents)	Unchanged		at	0.36

This information is to be read in conjunction with the 2011 Annual Report, the December 2011 Half-Year Financial Report and Directors' Report.

#### Net asset backing

	<b>Current period</b>	Previous corresponding period
Net asset backing per ordinary security (cents)	<b>0.36</b>	0.36

#### Dividends

It is not proposed to pay any dividends.

#### Details of entities over which control has been gained during the period

There have been no entities over which control has been gained during the period.

#### Details of individual and total dividends or distributions and dividends or distribution payments

There were no distributions or dividends payable or paid during the period.

#### Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for the participation in any dividends or distribution reinvestment plan.

There were no dividend or distribution reinvestment plans in operation.

#### Material interest in entities which are not controlled entities

There are no material interests in entities which are not controlled entities.

#### Competent Person Statement

Information on the Reserves and Resources in this report have been compiled by Mr. David Evans, Chief Technical Officer of Drillsearch. Mr. Evans is qualified in accordance with ASX listing rule 5.11 and has given his consent as of the date of this release to the inclusion of this statement and the information in the form and the context in which they appear in this release.

## Directors' report

The directors of Drillsearch Energy Limited ("Drillsearch" or "the Company") submit herewith the financial report of Drillsearch Energy Limited and its subsidiaries (the Group) for the half-year ended 31 December 2011. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the directors of the company during or since the end of the half-year are:

### Name

Mr. J. McKerlie (Chairman)

Mr. R. Wecker

Mr. B. Lingo (Managing Director)

Ms. F. Robertson

Mr. B. Choo

## Review of operations

### (a) Overview and strategy:

The principal activity of the Company during the six months to 31 December 2011 was oil and gas exploration, development and production. No significant change in the nature of this activity occurred during the financial half-year.

The Company's strategy is to deliver shareholder value in its core business platforms by:

- **Oil:** Growing oil production through development of existing discoveries and further exploration drilling.
- **Wet Gas:** Growing gas production through development of existing discoveries and further exploration drilling.
- **Unconventional:** Unlocking the unconventional gas resource potential with further appraisal and eventual exploration.

In the next year the Company aims to grow its reserves, production and cash flow.

For full details of the activities of the Group see the Drillsearch Energy Limited website [www.drillsearch.com.au](http://www.drillsearch.com.au).

### (b) Review of financial conditions:

The economic entity's revenue from operations for the period was \$4.6 million, 48% down on the half-year to 31 December 2010 of \$8.9 million. This was primarily due to a large sale of oil inventory in the half-year to 31 December 2010.

During the period, the economic entity recorded a gross profit of \$1.0 million, an increase of 11% over the gross profit of \$0.9 million recorded for the half-year ended 31 December 2010.

The economic entity recorded a net loss after tax of \$1.3 million for the period, a decrease of 71% over the net loss of \$4.4 million recorded in the half-year ended 31 December 2010.

The economic entity had \$33.7 million cash on hand as at 31 December 2011, down from the 30 June 2011 year-end balance of \$50.3 million. Additionally, during the half-year, the economic entity issued options to QGC Pty Limited, a BG Group business ("QGC") to subscribe for up to 31,622,454 Drillsearch shares at 62 cents per share exercisable any time prior to 15 February 2012.

On 14 February 2012 QGC exercised the above options and the Company issued 31,622,454 shares, raising \$19.6 million of additional funding. Following the issue, QGC holds approximately 9.4% of the issued ordinary shares of Drillsearch.

### (c) Exploration activity and outlook:

#### **Oil Business**

During the half-year the Company completed the remaining four wells in a six well exploration drilling campaign in PEL 91 (Drillsearch 60%) with three wells cased and suspended as future producers. Additionally, a further three development wells were drilled on the Bauer discovery which were also cased

**(c) Exploration activity and outlook (continued)**  
**Oil Business (continued)**

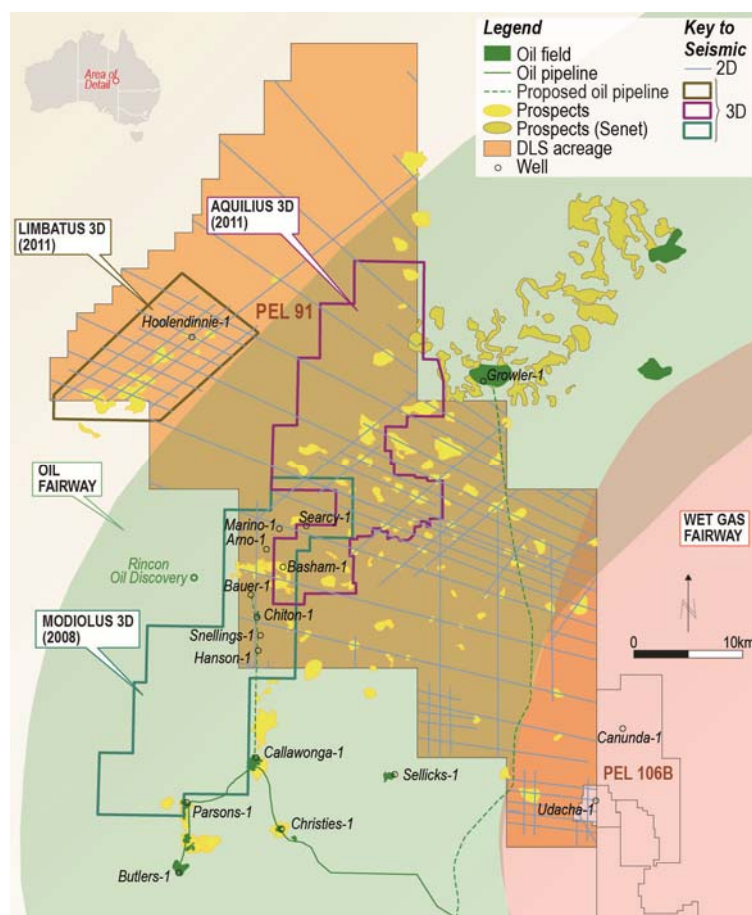
and suspended as future producers.

Beach Energy Limited ("Beach"), as Operator, has completed an initial assessment of the Reserves for the PEL 91 Bauer, Hanson and Snellings new oil discoveries. Drillsearch has also completed an initial assessment of the Arno new oil discovery. The table below details the estimated 1P, 2P and 3P Reserves for the PEL 91 new oil discoveries:

PEL 91 New Oil Discovery Reserve Estimates (mmbbls)					
Gross			DLS Net		
1P	2P	3P	1P	2P	3P
2.5	4.2	7.0	1.5	2.5	4.2

Bauer, Hanson and Snellings discovery estimates are based on 1P/2P/3P reserves provided by Beach Energy as operator of PEL 91 and by Drillsearch for the Arno Oil discovery.

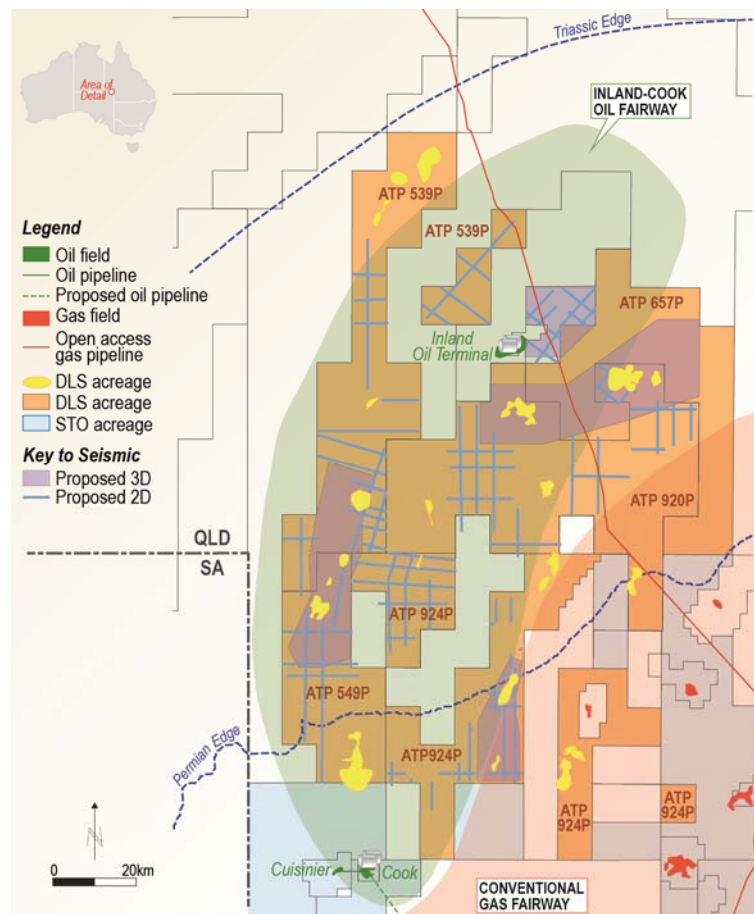
The above estimates do not incorporate the results of the Bauer-2, 3 and 4 appraisal and development wells or the Basham-1 exploration well. Gaffney, Cline and Associates ("GCA"), independent reserves auditors, are currently preparing a review of Drillsearch's Reserves and Resources with an update of these results expected to be announced in March 2012.



PEL 91 Discoveries, Cooper-Eromanga Basin  
 Source: Drillsearch Energy Ltd

During the half-year, Drillsearch entered into the tender phase for a 3D seismic acquisition in ATP 539P (Drillsearch 100%) and ATP 549P (Drillsearch 66<sup>2/3</sup>%) in the Inland-Cook Oil Fairway ("the Fairway"), part of a set of five contiguous South West Queensland Blocks that run along the Queensland border of the Cooper Basin (see map below). This Fairway remains in the early stages of the exploration cycle with the Company hopeful of demonstrating a similar play concept to what has proved so successful on the Western Flank Oil Fairway.

**(c) Exploration activity and outlook (continued)**  
**Oil Business (continued)**



*The Inland Cook Fairway, Cooper-Eromanga Basin*  
 Source: Drillsearch Energy Limited

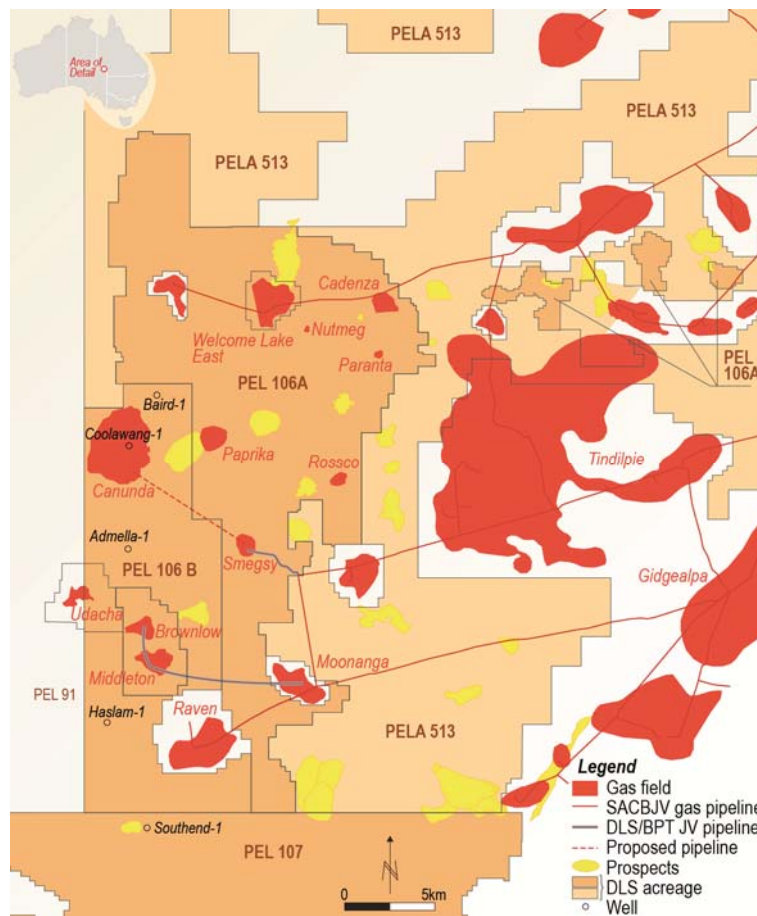
There was no drilling activity during the half-year in the ATP 299P Joint Venture (Drillsearch 11%, Santos Limited 89% and Operator). The Joint Venture is maturing a number of near field exploration prospects for drilling in 2012 based upon the newly acquired Tintaburra 3D seismic survey. An eight well optimisation and recompletion program is expected to commence later in 2012.

**Wet Gas Business**

Drillsearch continued to progress its interests in ten gas and condensate discoveries in PEL 106 in the Cooper Basin, South Australia (part of the Western Cooper Gas & Liquids Project). During the December 2011 quarter, the PEL 106B Joint Venture (Drillsearch 50%, Beach Energy Limited 50% and Operator) signed a Gas Sale Agreement ("GSA") with the South Australian Cooper Basin Joint Venture ("SACB") (Santos Limited 66.6%, Delhi Petroleum Pty Ltd. 20.2% and Origin Energy Limited 13.2%) to supply wet gas from the Middleton and Brownlow fields.

As a result of the GSA, Beach and Drillsearch agreed to a four well drilling campaign in PEL 106B. This campaign commenced with Baird-1 which was cased and suspended for future evaluation of potential deep coal seam gas and tight oil bearing sands. The second exploration well Admella-1, was plugged and abandoned as the well encountered and tested small non-commercial conventional wet gas accumulations. Coolawang-1, the third exploration well in the program was spudded on Wednesday, 9 February 2012.

**(c) Exploration activity and outlook (continued)**  
**Wet Gas Business (continued)**



Western Wet Gas Fairway, Cooper-Eromanga Basin  
 Source: Drillsearch Energy Limited

During the half-year, Drillsearch entered into a farmout agreement with Real Energy Corporation Limited (“Real Energy”) whereby Real Energy will earn a 50% participating interest and operatorship in ATP 927P and ATP 932P by fully funding the seismic program in each permit. The farmout is subject to Real Energy’s successful capital raising and listing on the stock exchange and the grant of the ATP 927P and ATP 932P permits by the Queensland Department of Employment Economic Development & Innovation (“DEEDI”). Drillsearch has completed the necessary Native Title negotiation for ATP 927P and ATP 932P with the relevant parties and the Environmental Authorities are complete but subject to the payment of a financial assurance.

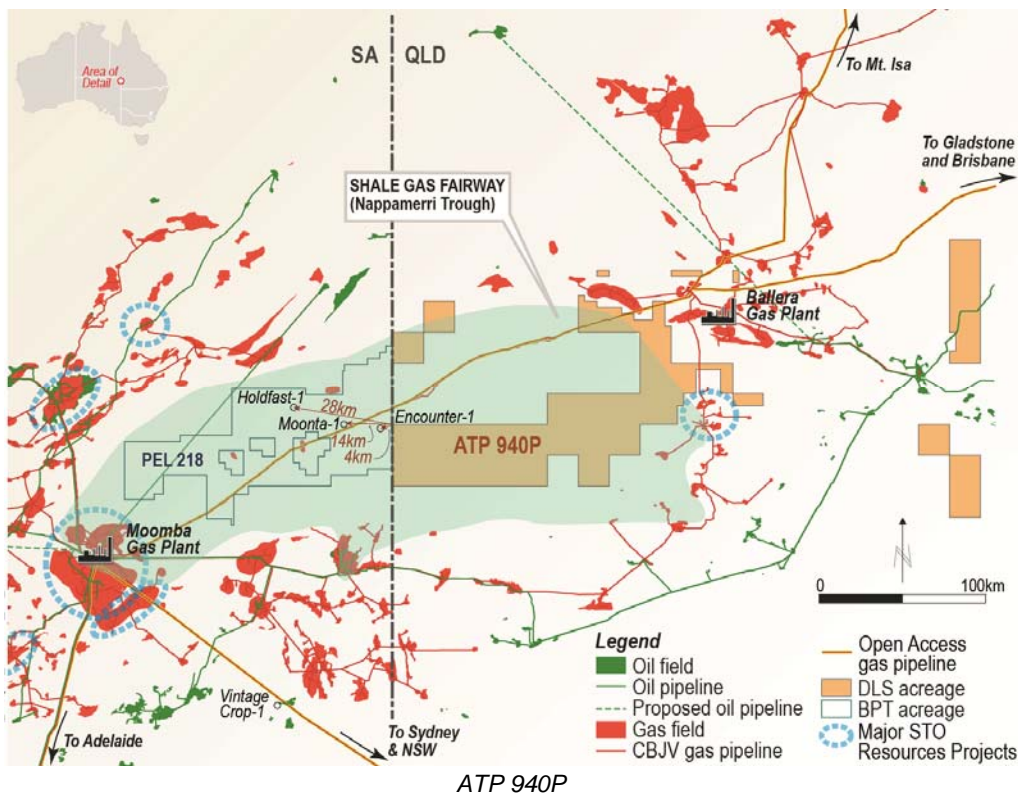
**Unconventional Business**

During the half-year, Drillsearch formed a strategic Joint Venture with QGC Pty Ltd. (“QGC”) a BG Group company, to explore and develop unconventional shale and tight gas resources in the Cooper Basin. The Joint Venture involves QGC farming into, and acquiring, a 60% interest in Drillsearch’s ATP 940P permit covering over 2,000km<sup>2</sup> (500,000 acres) of the Central Cooper Basin Nappamerri Trough Shale Gas Fairway.

The agreement places Drillsearch in the unique position in the Cooper Basin of having access to QGC’s gas commercialisation capacity to support the full scale exploration, appraisal and development of shale and tight gas resources. The Cooper Basin is well situated to supply the growing gas demand from LNG exports and domestic users in Australia. QGC is currently developing the QLNG project in Gladstone. In November 2011, ATP 940P was formally awarded to Drillsearch by the Queensland DEEDI. The commencement of the ATP 940P Joint Venture with QGC is subject to approval of the transfer of its interest in the permit.

Geological and geophysical work has been ongoing during the quarter.

**(c) Exploration activity and outlook (continued)**  
**Unconventional Business (continued)**



During the half-year, Drillsearch continued its unconventional resource evaluation of its Western Cooper Basin permit areas. The PEL 106B Joint Venture agreed to cut up to 30m of full core in the Admella-1, Coolawang-1 and Haslam-1 wells in order to target potential unconventional reservoir sequences. Future activity will be determined by the timing of future PEL106B Wet Gas wells.

**(d) Development and production activity:**

**Oil Business**

Drillsearch participates in oil production through its interests in the ATP 299P Tintaburra Block (11%) and in the PEL 91 Chiton field (60%). The total net production over the half-year period was 33,217 bbls of oil at an average production rate of greater than 175 bbls of oil per day (“bopd”) net to Drillsearch’s interest.

Field	Gross Production (bbls)	Net Production (bbls)
ATP 299P Tintaburra Block	293,940	32,108
PEL 91 Chiton-1*	1,849	1,109
<b>Total</b>	<b>295,789</b>	<b>33,217</b>

\*The Chiton Oil Field was shut-in for the majority of the half-year due to road access issues and a lack of available pipeline capacity. It was reinstated on 15 December 2011 and produced for 6 days.

It is anticipated that first production from the newly discovered Bauer Oil Field will be brought on line during the June quarter 2012. The Hanson and Snellings oil fields will be brought on line as export capacity is increased during the year. Production from March 2012 will be constrained to 1,200 net bbls per day to Drillsearch due to constraints in trucking. A pipeline capable of transporting 3,000 bbls per day to Drillsearch from a hub at Bauer is being discussed by the Joint Venture. This pipeline is expected to be in operation in the September quarter 2012.

**Wet Gas Business**

As discussed on page 4, during the period, the PEL 106B Joint Venture signed a GSA with the SACB Joint Venture. The GSA is on an interruptible basis for a term ending 30 April 2013 subject to a minimum quantity to be taken by the SACB Joint Venture.

Production of wet gas from the Middleton and Brownlow pilot project and sales to the SACB Joint Venture commenced in early January 2012. The initial production rate post commissioning is expected to be sustained at 25 mmscf/per day of raw gas comprising about 15 TJ/per day of sales gas and 1,250 bbls per day of LPG and condensate, higher than previous expectations.

**(e) Risk management and corporate governance practices:**

A strong emphasis continues to be placed on corporate governance by the Company. During the half-year, Drillsearch implemented a number of new corporate governance policies with the goal of reaching a high standard of governance practices.

The following policies were either implemented, amended or reviewed during the half-year:

- Diversity Policy
- Treasury Operations and Foreign Currency Risk Management Policy

Drillsearch recognises that risk management is an integral part of the oil and gas business and has established a sound system of risk oversight, management and internal control. It has established policies for the oversight of and management of material business risk. The companies practices with regard to risk are summarised below:

- The Board of Directors ("Board") continuously reviews the activities of the Company to identify key business and operational risks and where possible, will implement policies and procedures to address those risks. The Board Audit and Risk Committee play an active role in managing the risks the Company faces.
- To help manage technical risks, the Board has created a Technical Committee to advise the Board on all technical matters and review all reserves statements. The Technical Committee is comprised of Mr. Ross Wecker (Committee Chairman), Mr. Jim McKerlie and Mr. Brad Lingo.
- The Board is conscious of mitigating sovereign, commodity, interest rate and foreign exchange risks which arise through the activities of the Company. The Board is provided with monthly reporting on the management of operations and the financial circumstances of the Company aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise. Further, a Schedule of Internal Controls was implemented during the half-year to help mitigate risks that the Company faces.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 8 of the half-year report.

**Rounding off of amounts**

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors



**Jim McKerlie**

Chairman

Sydney, 23 February 2012



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The Board of Directors  
Drillsearch Energy Limited  
Level 16, 55 Clarence Street  
Sydney NSW 2000

23 February 2012

Dear Board Members

**Drillsearch Energy Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Drillsearch Energy Limited.

As lead audit partner for the review of the financial statements of Drillsearch Energy Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Jason Thorne".

Jason Thorne  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited



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## Independent Auditor's Review Report to the members of Drillsearch Energy Limited

We have reviewed the accompanying half-year financial report of Drillsearch Energy Limited, which comprises the condensed statement of financial position as at 31 December 2011, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Drillsearch Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

# Deloitte.

## *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Drillsearch Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Drillsearch Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Jason Thorne  
Partner  
Chartered Accountants  
Sydney, 23 February 2012



	Notes	Half-year ended	
		31-Dec-11 \$000	31-Dec-10 \$000
<b>Continuing operations</b>			
Revenue		4,641	8,924
Cost of sales	4	(3,644)	(8,029)
Gross profit		997	895
Other income		1,304	97
Exploration and evaluation costs expensed		(195)	(988)
Impairment of oil and gas assets		(147)	-
Finance costs		(240)	(284)
Other expenses	5	(2,976)	(5,058)
Loss before tax		(1,257)	(5,338)
Income tax expense		-	-
Loss for the period from continuing operations		(1,257)	(5,338)
<b>Discontinued Operations</b>			
Profit for the period from discontinued operations		-	934
<b>LOSS FOR THE PERIOD</b>		(1,257)	(4,404)
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		(128)	(728)
Other comprehensive income for the period, net of tax		(128)	(728)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		(1,385)	(5,132)
Loss attributable to:			
Owners of the parent		(1,257)	(4,289)
Non-controlling interests		-	(115)
		(1,257)	(4,404)
Total comprehensive income attributable to:			
Owners of the parent		(1,385)	(5,017)
Non-controlling interests		-	(115)
		(1,385)	(5,132)
<b>Earnings per share</b>			
From continuing and discontinued operations:			
Basic (cents per share)		(0.412)	(2.093)
Diluted (cents per share)		(0.412)	(2.093)
From continuing operations			
Basic (cents per share)		(0.412)	(2.606)
Diluted (cents per share)		(0.412)	(2.606)

Notes to the condensed consolidated financial statements are included on pages 16 to 22.

		31-Dec-11	30-Jun-11
	Notes	\$000	\$000
<b>Assets</b>			
<b>Current assets</b>			
Cash and bank balances		33,664	50,259
Trade and other receivables		1,358	1,026
Inventories		1,001	1,468
Other assets		390	234
		36,413	52,987
Assets classified as held for sale	12	2,289	2,289
<b>Total current assets</b>		38,702	55,276
<b>Non-current assets</b>			
Exploration and evaluation assets	8	23,730	18,769
Oil and gas assets	9	58,711	41,792
Property, plant and equipment	11	835	571
Other assets		1,287	1,287
<b>Total non-current assets</b>		84,563	62,419
<b>Total assets</b>		123,265	117,695
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		9,587	4,123
Provisions		325	214
<b>Total current liabilities</b>		9,912	4,337
<b>Non-current liabilities</b>			
Provisions		3,941	3,400
<b>Total non-current liabilities</b>		3,941	3,400
<b>Total liabilities</b>		13,853	7,737
<b>Net assets</b>		109,412	109,958
<b>Equity</b>			
Issued capital		159,587	158,767
Reserves		7,201	7,310
Retained earnings		(57,376)	(56,119)
Equity attributable to owners of the parent		109,412	109,958
<b>Total equity</b>		109,412	109,958

Notes to the condensed consolidated financial statements are included on pages 16 to 22.

	Share capital	Equity-settled benefits reserve	Foreign currency translation reserve	General reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2010	110,490	3,900	(1,153)	1,008	(50,600)	63,645	2,105	65,750
Loss for the period	-	-	-	-	(4,288)	(4,288)	(115)	(4,403)
Other comprehensive income	-	-	(728)	-	-	(728)	-	(728)
Total comprehensive income	110,490	3,900	(1,881)	1,008	(54,888)	58,629	1,990	60,619
Reduction in non-controlling interest	-	-	-	-	-	-	(1,990)	(1,990)
Asset revaluation recognised	-	-	-	4,345	-	4,345	-	4,345
Profit on realisation of reserves	-	-	874	(1,913)	-	(1,039)	-	(1,039)
Recognition of share-based payments	-	825	-	-	-	825	-	825
Shares issued during the period	2,032	(232)	-	-	-	1,800	-	1,800
Transaction costs of share issue	(8)	-	-	-	-	(8)	-	(8)
<b>Balance at 31 December 2010</b>	<b>112,514</b>	<b>4,493</b>	<b>(1,007)</b>	<b>3,440</b>	<b>(54,888)</b>	<b>64,552</b>	<b>-</b>	<b>64,552</b>
Balance at 1 July 2011	158,767	4,514	(645)	3,441	(56,119)	109,958	-	109,958
Loss for the period	-	-	-	-	(1,257)	(1,257)	-	(1,257)
Exchange differences arising on translation of foreign operations	-	-	(128)	-	-	(128)	-	(128)
Total comprehensive income	158,767	4,514	(773)	3,441	(57,376)	108,573	-	108,573
Recognition of share-based payments	-	342	-	-	-	342	-	342
Shares issued during the period	823	(323)	-	-	-	500	-	500
Transaction costs of share issue	(3)	-	-	-	-	(3)	-	(3)
<b>Balance at 31 December 2011</b>	<b>159,587</b>	<b>4,533</b>	<b>(773)</b>	<b>3,441</b>	<b>(57,376)</b>	<b>109,412</b>	<b>-</b>	<b>109,412</b>

Notes to the condensed consolidated financial statements are included on pages 16 to 22.

**DRILLSEARCH ENERGY LIMITED**

Condensed consolidated statement of cash flows

	<b>Half-year ended</b>	
	<b>Dec-11</b>	<b>Dec-10</b>
<b>Notes</b>	<b>\$000</b>	<b>\$000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	4,772	8,485
Payments to suppliers and employees	(4,003)	(5,301)
Cash generated by operations	769	3,184
Interest received	605	97
Interest paid	(134)	(1)
Net cash generated by operating activities	1,240	3,280
<b>Cash flows from investing activities</b>		
Payments for exploration & evaluation assets	(12,579)	(4,320)
Payment for property, plant and equipment - oil and gas assets	(5,243)	(555)
Payment for property, plant and equipment - other assets	(382)	(38)
Proceeds from sale of property, plant and equipment - oil and gas assets	-	105
Proceeds from sale of subsidiary (net of cash disposed)	-	4,330
Net cash (used in) investing activities	(18,204)	(478)
<b>Cash flows from financing activities</b>		
Proceeds from issues of equity shares	500	500
Payment for share issue costs	(3)	(8)
Net cash generated by financing activities	497	492
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(16,467)</b>	<b>3,294</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>50,259</b>	<b>6,521</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies	(128)	(728)
<b>Cash and cash equivalents at the end of the period</b>	<b>33,664</b>	<b>9,087</b>

Notes to the condensed consolidated financial statements are included on pages 16 to 22.

## Notes to the condensed consolidated financial statements

### 1. Significant accounting policies

#### Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 124, as a consequence of AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

AASB 2010-4 introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations have not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements.

### 2. Reclassification of financial information

The condensed consolidated statement of comprehensive income has been presented with some expense items and their comparative amounts being reclassified and combined in order to reflect gross profit/(loss) and profit/(loss) before tax more accurately aligned to our peers and industry practice. AASB 101 *Presentation of Financial Statements* requires following disclosure of changes in the presentation or classification of items in its financial statements:

- The employee benefits expense previously forming part of cost of sales is now included in other expenses as part of the profit/(loss) calculation.
- Changes in Inventory, direct operating expense, amortisation and depreciation expense have been combined into Cost of Sales.
- Investment revenue is reclassified as other income.
- Share based payments, corporate activity costs, general legal and professional costs and foreign exchange gains/(losses) have now been combined into other expenses.

The amount of each item or class of items that is reclassified is disclosed in note 4 & 5.

### 3. Segment Information

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

**3. Segment Information (continued)**

Information reported to the Group's Board of Directors for the purposes of resource allocation and assessment of performance is more specifically focused on the category of business units. The Group's reportable segments under AASB 8 Operating Segments are therefore as follows:

- Oil projects
- Wet gas projects
- Unconventional projects
- Divestment assets
- New ventures
- Other

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

**Segment revenue and results**

	Segment revenue		Segment profit/(loss)	
	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10
	\$000	\$000	\$000	\$000
Oil projects	4,641	8,794	1,065	741
Wet gas projects	-	130	(167)	(42)
Unconventional Projects	-	-	-	-
Divestment assets	-	-	(78)	(916)
New ventures	-	-	(520)	(1,622)
Total from continuing operations	4,641	8,924	300	(1,839)
Other income			1,304	97
Central administration costs and directors' salaries			(2,621)	(3,312)
Finance costs			(240)	(284)
Loss before tax (continuing operations)			(1,257)	(5,338)

**Other segment information**

	Amortisation and Depreciation		Additions to non-current assets	
	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10
	\$000	\$000	\$000	\$000
Oil projects	1,307	1,902	15,116	2,255
Wet gas projects	-	-	7,189	2,710
Unconventional projects	-	-	764	361
Divestment assets	-	-	-	328
New ventures	-	-	24	98
Other	118	70	383	42
	1,425	1,972	23,476	5,794

**3. Segment Information (continued)**

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue and finance costs, income tax expense, and gains or losses on discontinued operations. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Included in revenues arising from direct sales of oil of \$4.6 million (2010: \$8.8 million) (see above) are revenues of approximately \$3.0 million (2010: \$5.9 million) which arose from sales to the Group's largest customer.

	Impairment losses		Exploration write off	
	31-Dec-11 \$000	31-Dec-10 \$000	31-Dec-11 \$000	31-Dec-10 \$000
Oil projects	99	-	-	8
Wet gas projects	-	-	161	76
Divestment assets	48	-	-	904
New ventures	-	-	34	-
	147	-	195	988

**Segment assets**

	Total segment assets	
	31-Dec-11 \$000	30-Jun-11 \$000
Oil projects	53,863	40,136
Wet gas projects	27,549	20,522
Unconventional projects	2,586	1,822
Divestment assets	2,289	2,779
New ventures	24	34
Other	835	571
	87,146	65,864
Unallocated	36,119	51,831
Consolidated total assets	123,265	117,695

**4. Cost of sales**

	31-Dec-11 \$000	31-Dec-10 \$000
Changes in inventories	467	3,718
Direct operating expense	1,752	2,339
Amortisation expense	1,307	1,902
Depreciation expense	118	70
	3,644	8,029

**5. Other expenses**

	31-Dec-11	31-Dec-10
	\$000	\$000
Share based payments expense	342	825
Corporate activity costs	452	1,591
General legal and professional costs	301	141
Foreign exchange (gain)/loss	(345)	670
Employee benefits expense	2,937	1,547
Recharges and recoveries	(2,306)	(849)
Other expenses	1,595	1,133
	<b>2,976</b>	<b>5,058</b>

**6. Issuances, repurchases and repayments of equity securities**

During the half-year reporting period, Drillsearch Energy Limited issued: 1,000,000 ordinary shares for \$500,000 on exercise of options. There were no other movements in the ordinary share capital or other issued share capital of the company in the current period.

During the year ended 30 June 2011, Drillsearch Energy Limited issued: 3,000,000 ordinary shares for \$1,500,000, a placement of 29,411,765 ordinary shares for \$15,000,000, a rights issue shortfall placement of 35,584,011 ordinary shares for \$17,080,325 and 31,372,549 ordinary shares for \$15,058,824 under the rights issue.

**7. Contingencies and commitments****Contingencies**

Drillsearch has been involved in the following legal proceeding during the half-year:

On 12 May 2009, Odin Energy Limited ("Odin") announced that it had added Great Artesian Oil and Gas Limited ("Great Artesian"), a subsidiary of Drillsearch, to legal proceedings brought by Odin against Kompliment Pty Limited ("Kompliment") and its holding company, Blue Energy Limited, ("Blue Energy") relating to the termination of a sub-farmin agreement between those parties, and loss and damage Odin claims to have suffered in the circumstances of that agreement. Odin is claiming damages from Kompliment and Blue Energy in the amount of approximately \$4.5 million. As part of the proceedings, it is alleged that heads of agreement between Great Artesian, Kompliment and Blue Energy have terminated. The proceedings therefore essentially involve a dispute between a farminee (Kompliment) and sub farminee (Odin), and no claim for damages is made against Great Artesian. Great Artesian has filed its defence, provided discovery and participated in mediation sessions involving all parties to the proceedings. Attempts to resolve the matter at mediation were unsuccessful, and the matter returned to an active footing in April 2011. Great Artesian subsequently obtained orders in December 2011 requiring Odin to amend its pleadings and to provide security for Great Artesian's costs up to and including the first day of trial. As at 31 December 2011 the parties are engaged in filing and serving their witness statements, and Odin has indicated that it intends to seek that the matter be listed for trial in the course of 2012.

There is no other litigation of a material nature against Drillsearch or its subsidiaries of which the Directors are aware.

**Commitments for expenditure**

	31-Dec-11	30-Jun-11
	\$000	\$000
<b>Oil and gas properties</b>		
Not longer than 1 year	43,000	24,691
Longer than 1 year and not longer than 5 years	80,300	39,132
	<b>123,300</b>	<b>63,823</b>

**7. Contingencies and commitments (continued)**

	31-Dec-11	30-Jun-11
	\$000	\$000
<b>Operating lease commitments (office rental)</b>		
Not longer than 1 year	385	372
Longer than 1 year and not longer than 5 years	771	930
	<b>1,156</b>	<b>1,302</b>

**8. Exploration and evaluation**

	31-Dec-11	30-Jun-11
	\$000	\$000
Opening balance	18,769	29,039
Acquisitions	-	1,450
Reclass from asset held for sale	-	1,121
Expenditure incurred during the year	17,850	9,985
Expenditure expensed during the year	(195)	(2,793)
Reclassified (to) oil and gas assets	(12,694)	(17,764)
Reclassified as asset held for sale	-	(2,289)
Foreign currency translation	-	20
<b>Balance carried forward</b>	<b>23,730</b>	<b>18,769</b>

During the period Drillsearch announced a strategic joint venture with QGC Pty Limited ("QGC") a 100% BG Group subsidiary, to explore and develop unconventional shale and tight gas resources in the Cooper basin. Once all the conditions precedent have been met, QGC will reimburse Drillsearch for 60% of its historical costs, capped at \$2.5m; in addition to 90% of its interim costs.

**9. Oil and gas assets**

	31-Dec-11	30-Jun-11
	\$000	\$000
Opening balance	41,792	26,253
Expenditure incurred during the year	5,243	1,548
Depletion and amortisation expense	(1,307)	(3,695)
Impairment charges	(147)	-
Changes in decommissioning obligations	436	-
Reclass from exploration & evaluation assets	12,694	17,764
Foreign currency translation	-	(78)
<b>Balance carried forward</b>	<b>58,711</b>	<b>41,792</b>

**10. Impairment of oil and gas assets**

During the half-year reporting period, the consolidated entity reviewed all of its oil and gas assets for indicators of impairment. The review led to the recognition of an impairment loss on those oil and gas assets of \$147,562 which are no longer in production. No impairment of any other assets has been identified in the current period.

**11. Plant property and equipment**

	31-Dec-11	30-Jun-11
	\$000	\$000
Opening balance	571	193
Expenditure incurred during the year	383	571
Depreciation expense	(118)	(136)
Disposals during year	(1)	(57)
<b>Balance carried forward</b>	<b>835</b>	<b>571</b>

**12. Asset held for sale**

	31-Dec-11	30-Jun-11
	\$000	\$000
Assets		
Exploration and evaluation assets	2,289	2,289
<b>Total assets</b>	<b>2,289</b>	<b>2,289</b>
Liabilities	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>	<b>2,289</b>	<b>2,289</b>

In February 2011, the Company announced the sale of its three Gippsland Basin Permits being VIC/P63, VIC/P64 and T/46P to Larus Energy Pty Limited ("Larus"). The sale is conditional upon successful listing of Larus on the Australian Securities Exchange. A non-refundable deposit of \$100,000 has been received towards the sale consideration.

**13. Discontinued operations****Disposal of interest in Circumpacific Energy Corporation**

	<b>6 months ended 31-Dec-11 \$000</b>	<b>4 months ended 31-Oct-10 \$000</b>
Loss of Circumpacific Energy for the period	-	(559)
Profit on realisation of reserves	-	1,039
Profit on disposal	-	454
	-	934

The following were the results of Circumpacific for the period:

	<b>6 months ended 31-Dec-11 \$000</b>	<b>4 months ended 31-Oct-10 \$000</b>
Revenue	-	1,143
Expenses	-	(1,702)
Loss before tax	-	(559)
Income tax expense	-	-
Loss after Income tax	-	(559)

A profit of \$0.9 million was recognised on the disposal of Circumpacific during the previous corresponding period.

**14. Key management personnel**

Remuneration arrangements of key management personnel are disclosed in the annual financial report. In addition, during the interim period, 4,656,221 equity share options were issued to key management personnel valued at \$1,465,847. These options were priced using the Monte Carlo pricing model. Key management personnel receiving options are entitled to the beneficial interest under the option when prescribed conditions are met. 75% of the grant of options will be exercisable according to the achievement of specified share price growth and 25% of the grant of options will be according to a percentage rating of the Company's share price in comparison to comparable companies. These options have a three year vesting period. The grant of options was approved by the shareholders at the Extraordinary General Meeting and the Annual General Meeting, held in June 2011 and November 2011 respectively.

**15. Subsequent events**

Subsequent to balance date the following material events have occurred:

- On 3 January 2012 the Company announced that the Baird-1 exploration well in PEL106B had been cased and suspended for future evaluation.
- On 9 January 2012 the Company announced that the production of wet gas from the PEL106B Joint Venture's Middleton Brownlow pilot project and sales to the South Australian Cooper Basin Joint Venture had commenced.
- On 1 February 2012 the Company announced that the Admella-1 exploration well in PEL106B was to be plugged and abandoned.
- On 2 February, the Company announced that in PEL 91 all four Bauer wells and Hanson-1 exploration well had been completed as production wells.
- On 14 February 2012 QGC exercised the 31,622,454 options and the Company issued an equal number of shares, raising \$19.6 million of additional funding. Following the issue, QGC holds approximately 9.4% of the issued ordinary shares of Drillsearch.