

# Quarterly Report



## Highlights

### Financial

- Revenue of \$3.47m for the quarter, up 81% on the previous quarter.
- Production of 33,173 bbls, down 3% on the previous quarter.
- Cash position of \$6.5m with no debt.
- Crude Oil Inventory pending sale of \$4.3m

### New Oil

- Construction commenced on a new access road to the Chiton Oil Field to enable the recommencement of production following flooding in the Cooper Basin (expected mid-August).
- Western Flank Oil Fairway 5 Well Drilling Programme in PEL 91 announced.

### Wet Gas

- Brownlow-1 extended production test rate of 18.4 mmcf/day equaling highest production test rates historically achieved in the South Australian Cooper Basin.
- Canunda-1 production testing of the upper most zone produces exceptionally high levels of condensate or light oil.

### Mature Oil

- Completion of 213 km<sup>2</sup> 3D seismic survey in the Tintaburra block.
- New Oil Discovery with Watson West-1 Exploration Well in Naccowlah Block completed as Birkhead oil producer.

## Financial highlights

Description	Units	Full Year	Full Year	March	June	Quarter	Quarter
		2008-2009	2009-2010	2010 Quarter	2010 Quarter	Change	Change %
<b>Oil &amp; gas production</b>							
Australia	boe	118,526	94,801	19,566	17,190	(2,376)	-12%
Canada	boe	70,312	62,638	14,677	15,983	1,306	9%
Total Production	boe	188,838	157,439	34,243	33,173	(1,070)	-3%
<b>Oil &amp; gas revenues</b>							
Australia	A\$	9,977,156	6,109,331	942,278	2,259,718	1,317,440	140%
Canada	A\$	5,091,399	3,466,653	969,929	1,207,304	237,375	24%
Total Sales Revenue	A\$	15,068,555	9,575,984	1,912,207	3,467,022	1,554,815	81%
<b>Production expenditure</b>							
Australia	A\$	5,625,918	3,221,217	883,351	1,039,165	155,814	18%
Canada	A\$	2,474,685	1,594,249	392,534	412,116	19,582	5%
Total Production Expenditure	A\$	8,100,603	4,815,466	1,275,885	1,451,281	175,396	14%
<b>Exploration &amp; development expenditure</b>							
Australia	A\$	8,851,510	11,528,323	3,099,711	2,764,417	(335,294)	-11%
Canada	A\$	498,000	821,652	(93,644)	516,081	609,725	N/A
Total Expl & Dev Expenditure	A\$	9,349,510	12,349,975	3,006,067	3,280,498	274,431	9%
<b>Financials</b>							
Cash & Cash Equivalents	A\$	8,141,827	6,521,013	8,060,398	6,521,013	(1,539,385)	-19%
Debt	A\$	None	None	None	-	-	-
Hedging	A\$	None	None	None	-	-	-
<b>Capital</b>							
Issued Shares	# millions	1,728.43	2,027.54	2,027.54	2,027.54	0	0%
Unlisted options	# millions	45.50	95.50	95.50	95.50	0.00	0%

\* Boe stands for barrels of oil equivalent

\* Canada Production, Revenue, Production expenditure, Exploration & development expenditure and Cash & Cash equivalents are shown at 100%. Drillsearch's interest in CER is 79.5% and is accounted for on an equity basis.

## Production and revenue

### Australia

Australian oil production for the June quarter was 17,190 bbls, which was 12% below the prior quarter. This larger than expected decline was due to flooding in the Cooper basin affecting production coupled with ongoing natural decline of existing fields. This decline trend will be reversed once oil production from the Chiton-1 oil field (Drillsearch 60%) is re-instated.

Chiton production having commenced in late January, had to be shut in after only a couple of days due to wet weather and flooding which has prevented transportation from our facilities. To combat this problem, we have commenced construction on an alternate road to enable access to the Chiton oil facility. This road is being built on higher ground than currently used routes so as to enable access during times of Cooper Creek flooding.

The benefits of this road are considerable. We estimate that it will enable us to re-commence production at Chiton by mid-August, which is four months sooner than we would otherwise have been able to. Furthermore, this new road will also provide earlier and better quality access to our targeted drilling locations in PEL 91.

The cost of constructing this new road is \$300,000 in total. However, the marginal cost is closer to \$200,000 given \$100,000 of repairs would have been required on the old road once the flooding subsides. This cost is being split with our JV partner Beach Energy on a 60/40 basis.

Australian revenues for the June quarter were \$2.26m, which was 140% higher than the previous quarter. This is primarily the result of Tintaburra and Naccowlah production now flowing through the Crude West pipeline rather than accumulating as inventory in the Jackson to Moonie pipeline which is being decommissioned.

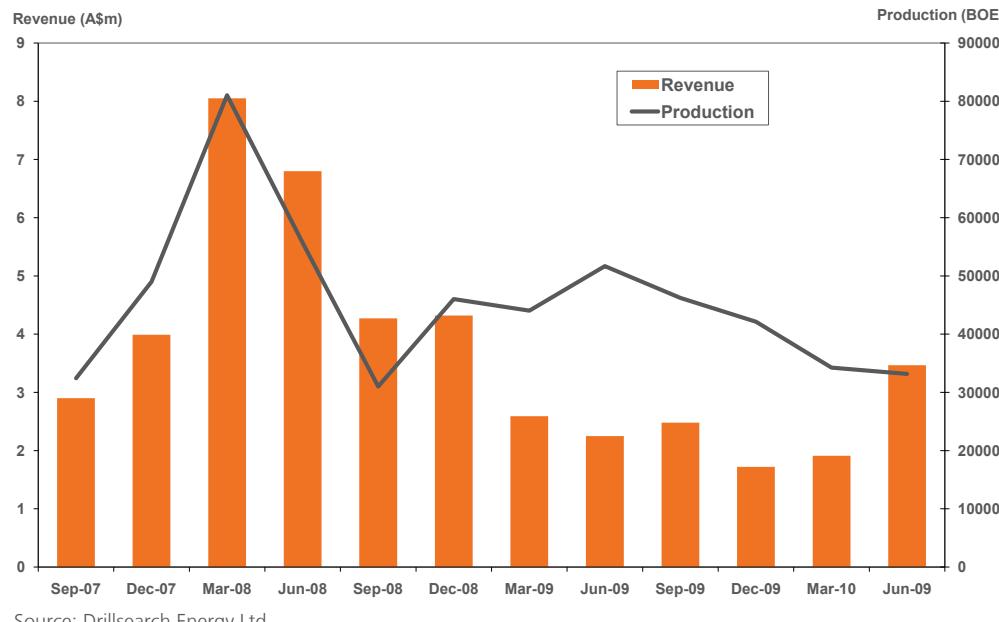
Drillsearch's Australian operations realised a June quarterly average oil price of \$89.2/bbl. This compares with a price of \$80.5/bbl in the previous quarter.

### Canada

Canadian oil and gas production for the June quarter from Circumpacific was 15,983 boe, which was 9% higher than in the March quarter.

Canadian revenues were \$1.21m, which was 24% higher than in the previous quarter primarily due to a \$2 boe increase in realised oil price.

### Revenue and Production History



Source: Drillsearch Energy Ltd

## Development and exploration

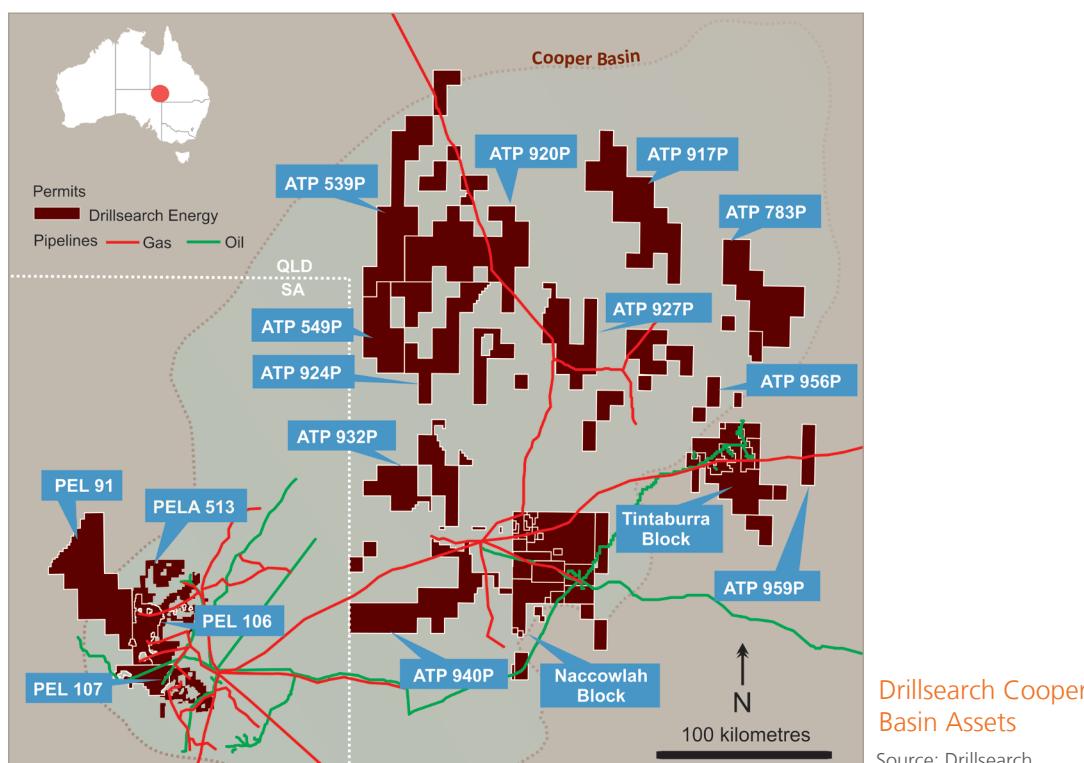
### Mature Oil Business

During the quarter a new oil discovery was made with the Watson West-1 exploration well being successfully drilled in the Naccowlah block (Drillsearch 2%). It has been completed as a future Birkhead oil producer. There was no drilling activity during the quarter in the Tintaburra (Drillsearch 11%) joint venture. The Tintaburra joint venture commenced the acquisition of 213 km<sup>2</sup> of 3D seismic around the Tintaburra and Tooboonyah fields completing 3D coverage over all the producing fields in the Tintaburra joint venture area. This survey commenced in mid May 2010 and was 95% complete by the end of the quarter.

The Tintaburra Block JV partners have also approved the drilling of four further development wells during 2010. The Tintaburra JV is also undertaking a programme of surface facility replacement to put idle wells back into production. In most instances these facility upgrades involve the replacement of non-operating PCP pumps with either traditional beam pumps or Linear Rod Pumps first trialled in the Tintaburra Block in 2009. The first of these wells to undergo facility replacement are the Tagleberry 18 & 19 production wells.

Following closure of the Jackson Moonie Pipeline effective 25 March 2010, oil production from Tintaburra and Naccowlah has been transported to Moomba for sale at Port Bonython. This change and a delay in the commencement of evacuation of the JMP has resulted in lower sales and cash receipts in the quarter as production inventory has increased.

This is likely to be reversed over the next six months. The Santos-operated Jackson-Moonie Crude Oil Pipeline commenced decommissioning in April 2010 and through new transportation arrangements with Santos, Drillsearch has now commenced transporting all of its crude oil production from the Tintaburra and Naccowlah Block JV areas through the Santos' Crude West pipeline system. As a result of the decommissioning process for the Jackson-Moonie Crude Oil Pipeline, Drillsearch has accumulated crude oil in inventory of approximately 71,000 bbls. During the quarter, Santos commenced a process of evacuating all crude oil from the Jackson-Moonie Crude Oil Pipeline which will alleviate this build-up of inventory. Santos is currently transporting for sale out of the Jackson-Moonie Crude Oil Pipeline 1,000 BOPD for Drillsearch's account.

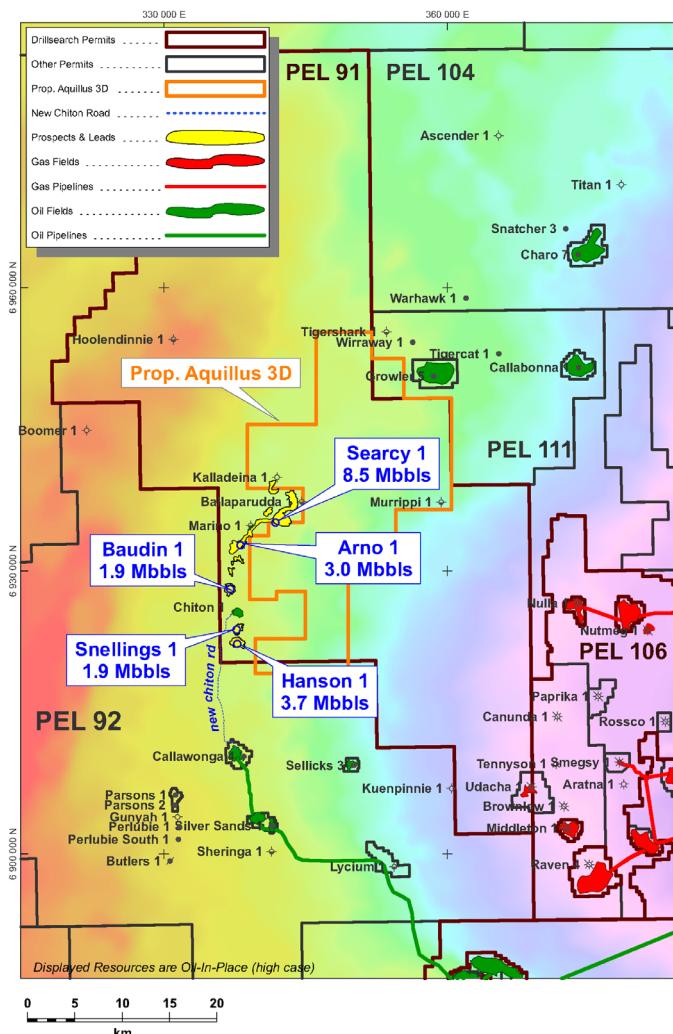


## New Oil Business

Drillsearch announced, soon after the end of the quarter, the planned drilling of up to five exploration wells in PEL 91 in the Cooper Basin Western Flank Oil Fairway in South Australia (see attached map). The working interests in PEL 91 are Drillsearch (60%) and Beach as operator (40%).

The prospects are named Baudin, Hanson, Snellings, Arno and Searcy and target on a combined basis, a mean un-risked recoverable prospective oil resource potential of 3.5 million barrels. There is scope for significantly higher volumes if high side un-risked recoverable prospective oil resource potential outcomes are realised for each prospect.

A discovery in any of these prospects would add significantly to Drillsearch's reserves and overall production.



Source: Drillsearch

We are optimistic as to our likelihood of drilling success given our historical success rate of well over over 50% in the Cooper Basin region.

All of these prospects are in close proximity to the Chiton Oil Field and infrastructure, meaning any discovery could be commercialised quickly and would provide immediate cash flow to the Company.

The timing of commencing the 5 well drilling programme is subject to our JV partner Beach Energy securing a suitable drilling rig. It is expected that the drilling programme will commence no later than December 2010 /January 2011.

The PEL 91 Joint Venture has approved the 434 km<sup>2</sup> "Aquilus" 3D seismic survey which will address further exploration prospectivity in the block. The new survey will cover over 20 Namur sandstone oil prospects previously identified as well as potential prospective Birkhead Formation plays immediately south of the PEL114/PEL104 Wirraway, Growler and Snatcher oil discoveries. Seismic acquisition will commence when seismic crews are able to gain access to the area, expected to commence 4th quarter 2010.

All South West Queensland ATP blocks (8), continue to be matured to award through the State Government. All 8 blocks received financial assurance notifications in the quarter.

## Wet Gas Business

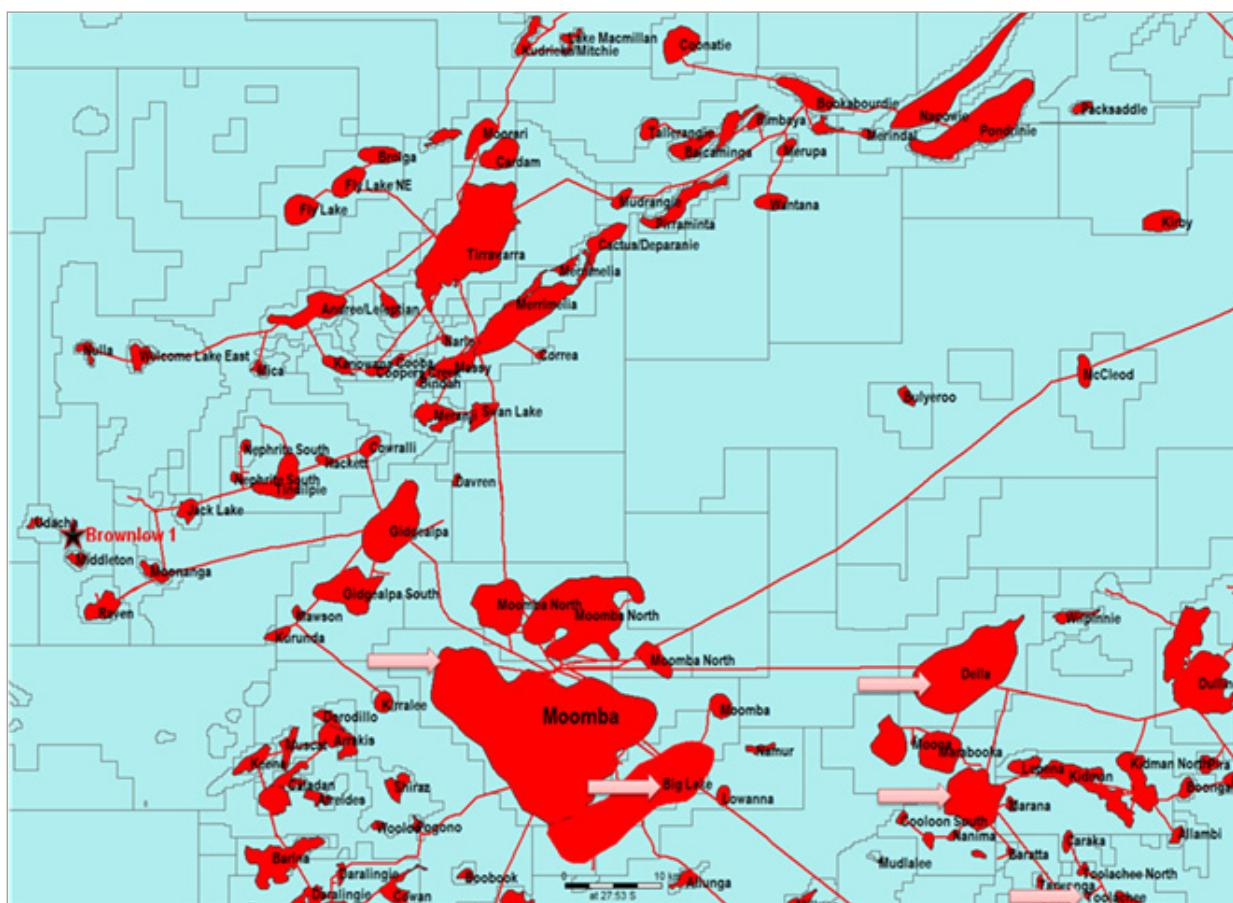
The extended production test to assess gas volumes and potential flow rates for the Brownlow and Canunda gas-condensate discoveries in PEL 106 B (Beach farmin Block - Drillsearch 50%), now nears completion having been temporarily suspended in January after a few days of Brownlow-1 testing. The purpose of the extended production testing is to establish the overall deliverability of these two fields on a long term basis giving the Company greater confidence with regard to supply and productivity underpinning a gas supply project or contract. As such the company is maturing two options, independent liquids stripping and small scale LNG production.

The Brownlow production test achieved a peak test rate of 18.1 million cubic feet of gas per day through a 1-inch choke. On an energy equivalent basis, this production rate is equal to over 2,350 barrels of oil equivalent per day after accounting for CO<sub>2</sub> content. Condensate production is approximately 10 bbls per million cubic feet of gas per day.

The production test rate from Brownlow production is equal to the highest production test rates historically achieved in the South Australian Cooper Basin. This flow rate is equivalent to the flow rates achieved by some of the biggest fields in the South Australian Cooper Basin including Moomba, Big Lake, Della, Toolache and Strzelecki Gas Fields.

The extended production test for the Canunda Wet Gas discovery which is located to the north of the Middleton-Brownlow-Udacha Wet Gas fairway has commenced. The Canunda production testing of the upper most zone produced exceptionally high levels of condensate or light oil.

Initial production rates reached as high as 800 barrels of liquids. Testing of the well was choked back to a 12/64" choke producing 1 MMscfd of gas and 180 barrels of liquids per day at a stabilized rate with no water production and increasing reservoir pressures. Due to heavy winter rains, limitations on liquids storage at the well site, and



Source: Drillsearch

## Wet Gas Business Continued

available trucking to transport the condensate/light oil to Moomba for sale the well has been temporarily shut in.

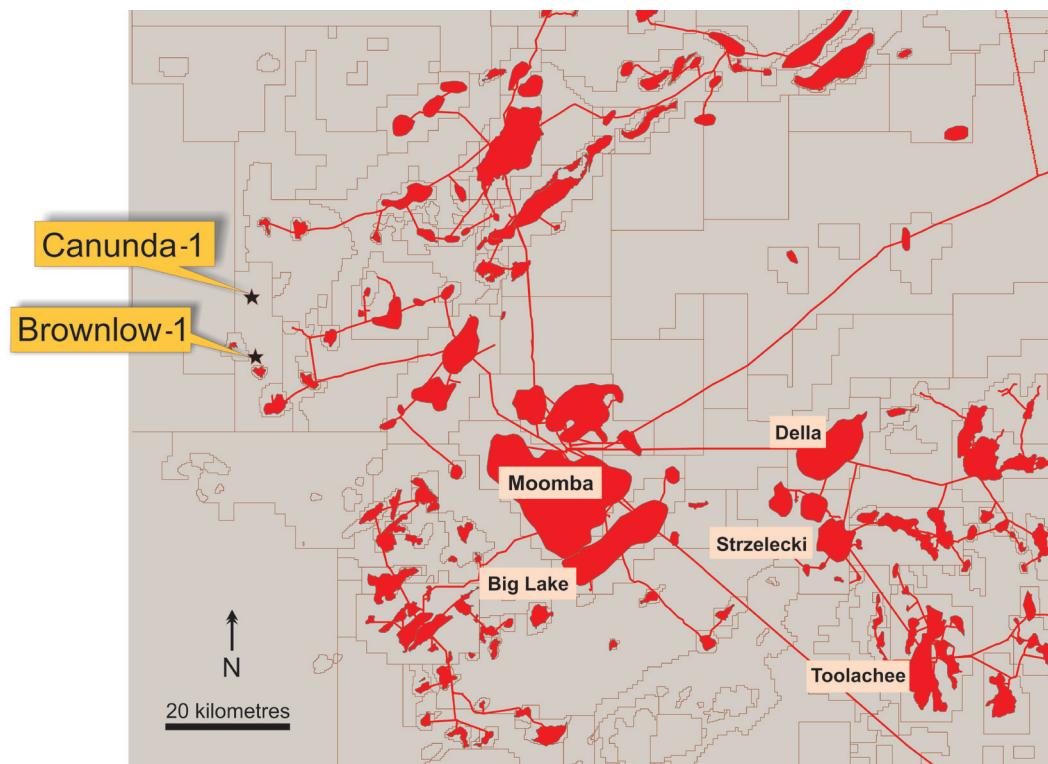
Over the 10 day testing of the upper zone, the Canunda well produced over 2500 bbls of condensate/light oil. So far DLS has not received any estimates as to potential total condensate/light oil reserves for the Canunda discovery from the operator, Beach Energy.

Based on the pleasing well test results the Company continues to review drilling locations in PEL 106 focusing on a forward program of appraisal drilling and testing of the existing discoveries. Multiple appraisal, development and near field exploration drilling locations are being matured from the the initial prospect inventory covered by the October 2009 Gaffney, Cline and Associates Report. Discussions are ongoing with Beach Energy as joint venture partner in SW portion of PEL 106 to help firm up the forward drilling programme for PEL 106.

Brownlow and Canunda test results are providing important information for a forward program of additional engineering reviews for the potential of completing, recompleting or testing previous discoveries to optimize their full potential.

## Unconventional Gas Business

During the quarter, the Company continued its unconventional resource evaluation of its Western Cooper Basin permit areas. The Company has made significant progress in developing the future work programme it plans to implement over the next 2 years to appraise and commence pilot production testing of the unconventional resource targets in PEL 106, 107, 91 and PELA 513. The primary focus during the quarter has been on designing a coring programme that can be integrated with the next phase of exploration, appraisal and development drilling in the Western Cooper Gas & Liquids Project area in PEL 106.



Source: Drillsearch

## Financial Position

Drillsearch Energy remains in a sound financial position. Its cash balance at the end of June 2010 was \$6.5m with no debt. Actual cash payments for exploration, appraisal and development expenditure for the June quarter were \$3.3m, compared to \$3m in the previous quarter. Drillsearch Energy has adequate cash resources to meet its funding requirements for all of its existing capital commitments.

## Corporate

### Portfolio Rationalisation

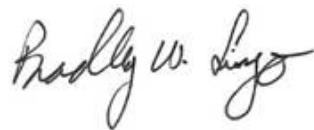
In keeping with the focus of the Company's activities in the Cooper Basin, the Company is continuing its efforts to:

- (1) increase its interest in core Cooper Basin assets and areas of focus and;
- (2) divest or farm out any non-Cooper Basin assets and any non-core Cooper Basin interests.

### Canada

The company continues to evaluate its 79.37% holding in TSX.V listed Circumpacific Energy Resources.

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