Drillsearch Energy Limited
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Level 16, 55 Clarence Street
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25 February 2011

Drillsearch post a 203% increase in Revenue, a 44% reduction in interim loss, with drilling set to commence

Highlights:

- Revenue from Operations were $8.9m, up 203% on the December 2009 half-year ($2.9m)
- Net loss of $5.3m, compared to a net loss of $10.5m in the December 2009 half-year, down 44%
- Net cash flow generated by operating activities of $3.3m, compared to a net cash use of $2.6m in the December 2009 half-year
- Strong balance sheet with $9.1m in net cash and no debt
- Significant progress achieved in the divestment of non-core acreage (sale of interest in Circumpacific Energy Resources and ATP259P Naccowlah block)
- Drilling of five exploration wells in the Western Flank Oil Fairway (PEL 91) commencing in March

Managing Director Brad Lingo said:

"We are extremely optimistic about the prospects for Drillsearch in 2011. Our strategy remains clear – to be focused on the prolific, highly attractive Cooper-Eromanga Basin. Our exploration program in the Western Flank Oil Fairway is set to commence in March and all necessary equipment has been organised. We have five high potential exploration wells soon to be drilled which are situated in close proximity to our successful Chiton-1 discovery in PEL 91 and multiple commercial discoveries in adjoining permits. Any further drilling success in these locations will result in a short development time to first oil given existing infrastructure facilities are already in place."

"We are also putting a lot of effort in with Beach, our joint venture partner in the Wet Gas Project to move our existing discoveries in PEL 106B into development and production. The joint venture is looking at significant additional appraisal and development drilling later this year to support the overall development and moving these liquids-rich gas discoveries into commercial reserves and production. In all we expect a very active next twelve months in terms of drilling and development activities."

Financial Summary

The interim loss was derived from oil and gas production of 47,658 bbls and revenues of $8.9m, which was 203% up on the same period last year. The increase in revenues was largely due to the sale in the period of the balance of inventory held in the decommissioned Jackson to Moonie pipeline coupled with first production from the Chiton Oil field in PEL 91 (11,636 bbls).

The widespread flooding of the Cooper Creek impacted production and resulting revenues. Significantly the Chiton Oil field remained shut-in for much of the period due to the inundation of its access road. A new road was constructed west of flooding affected areas that allowed reinstatement of production from Chiton. With the construction of the new access road, Chiton oil production commenced in early November 2010 and has been uninterrupted from that time. Chiton is currently producing 207 bbls per day.

The balance sheet remains strong, with net cash of $9.1m and no debt.

Forward Exploration and Development Plans

A five well drilling program is planned to commence in March 2011 in the highly prospective PEL 91 permit, in the Cooper-Eromanga Basin's prolific Western Flank Oil Fairway. The prospects have been covered by 3D seismic and Drillsearch is excited about the coming months of drilling activity. Historical success rates when drilling on 3D seismic in the Cooper-Eromanga Basin have been over 50% in total and even higher for Drillsearch alone.

Our drilling program will be a period of intense activity and frequent newsflow. The expected drill time for each well is within 20 days, meaning the entire five well program should be completed within a relatively short time period.

In addition to this near-term drilling program, we are engaged in ongoing efforts to commercialise the liquids in our Wet Gas business. We are also looking forward to finally getting into significant activities in South West Queensland targeting the Inland-Cook Oil Fairway along the western margin of the Windorah Trough stretching from the Inland Oil Field in the North East down to the Cook and Cuisinier Oil Fields in the South West. Drillsearch holds a very significant position along this oil fairway covering four permit areas with ownership ranging from 66-100% interest in these blocks.

For further information please contact:

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If you would like to register for email alerts please go to the Register Page on our website.

About Drillsearch Energy Limited (ASX: DLS), which listed on ASX in 1987, explores and develops conventional oil and gas projects. Drillsearch has a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper-Eromanga Basins in South Australia and Queensland. The company's focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, ensuring that any discoveries can be brought into production.

APPENDIX 4D

For the half-year ended 31 December 2010

Previous corresponding period: Half-year ended 31 December 2009

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information

			$
Revenues from ordinary activities	Increased	202.75% to	8,924,508
Loss from continuing operations after tax attributable to members	Decreased	44.29% to	(5,337,242)
Net loss for the period attributable to members	Decreased	57.68% to	(4,288,033)

Dividends

It is not proposed to pay any dividends

Net Tangible Assets

	Current period	Previous Period
Net tangible asset backing per ordinary security (cents)	3.19	3.91
Basic earnings / (loss) per share (cents) from continuing and discontinued operations	(0.2093)	(0.5406)

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

Name	Date of gain of control	Contribution to entity's loss for the period	Contribution to entities loss for the full 6 month period
Nil			

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.

This information should be read in conjunction with the Directors' Report and the half-yearly financial statements for the period.

Drillsearch Energy Limited

ACN: 006 474 844

Half year report for the half-year ended 31 December 2010

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Directors' report

The directors of Drillsearch Energy Limited ("the Company" or "Drillsearch") submit herewith the financial report of Drillsearch Energy Limited and its subsidiaries (the Group) for the half-year ended 31 December 2010. 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. B. Lingo (Managing Director)
Mr. B. Choo
Mr. R. Wecker
Ms. F. Robertson

Review of operations

(a) Overview:

The principal activity of the Company during the six months to 31 December 2010 was oil and gas exploration, development and production. No significant change in the nature of this activity occurred during the financial half year.

During the period, the economic entity made a net loss after tax of $4,403,439 (31 December 2009: $10,395,158 loss).

(b) Review of operations:

Revenue from operations for the period was $8,924,508, 203% up on the previous half-year (31 December 2009: $2,947,820). This was due largely to the realisation of inventory lifted from the Jackson Moonie pipeline, as well as the commencement of Chiton production

Mature Oil

Drillsearch participates in oil production through its interests in ATP 299P Tintaburra Block (11%). There was no drilling activity during the half year in the Tintaburra block. During the period Drillsearch announced the sale of ATP 259P Naccowlah Block (2%) in the Cooper-Eromanga basins in Queensland. This sale was completed in January 2011.

New Oil

There was no drilling activity during the half year as a result of flooding in the Cooper-Eromanga Basins. The drilling of five exploration wells in PEL91 in the Western Flank Oil Fairway in South Australia had been planned during this period and is now expected, weather permitting, to commence late in the first quarter 2011. Drillsearch's exploration interests in the Cooper-Eromanga basins are at various stages of activity ranging from preferred tenderer status (8 permits) to acquiring seismic, prospect definition and drilling.

Wet Gas

Drillsearch continues to progress its interests in ten gas and condensate discoveries in PEL 106 of the Cooper Basin, South Australia (part of the Western Cooper Gas & Liquids Project). An extended production test (EPT) of Canunda began during the half year but suspended until a work-over of the well can be completed. The EPT is expected to recommence late in the first quarter 2011. A major resource upgrade was announced by the company having been independently audit reviewed and verified by Gaffney, Cline & Associates Pty Ltd (GCA).

Unconventional

During the half year, Drillsearch continued its unconventional resource evaluation of its Western Cooper Basin permit areas. Future activity will be determined by the timing of future PEL106 Wet Gas wells.

Portfolio Rationalisation

In keeping with the focus of the Company's activities in the Cooper-Eromanga Basins, the Company had a busy half year announcing a number of acquisitions and divestments. These included:

- The sale of its 79.37% holding in the Canadian TSX Venture Exchange listed Circumpacific Energy Resources. (CER) via a Plan of Arrangement Agreement to Western Petroleum Commodities, Inc. This sale completed in November 2010.

- The sale of its interest in ATP259P Naccowlah block to Bounty Oil and Gas NL for a total consideration of $1.15 million. The completion of this sale was announced in January 2011.

- The proposed merger of Drillsearch with Innamincka Petroleum Limited via a friendly scheme of arrangement. The requisite majority of Innamincka shareholders voting in favour of the scheme were not achieved and as such the scheme was unsuccessful.

- The acquisition of additional interests in four Wet Gas discoveries from Traditional Energy and additional interests in New Oil exploration acreage from Bandanna Energy Limited.

For full details of the activities of the Group see the Drillsearch Energy Limited website www.drillsearch.com.au.

Auditor's independence declaration

The auditor's independence declaration is included on page 3 of the half-year report.

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, 25 February 2011

Deloitte.

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

25 February 2011

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 2010, 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

Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

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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 2010, and 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 as set out on pages 6 to 15.

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 Drillsearch's financial position as at 31 December 2010 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

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Member of Deloitte Touche Tohmatsu Limited

that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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 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 2010 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, 25 February 2011

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Jim McKerlie
Chairman
Sydney, 25 February 2011

Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2010

	Notes	Half-year ended 31-Dec-10 $	Half-year ended 31-Dec-09 $
Continuing operations			
Revenue		8,924,508	2,947,820
Changes in inventories		(3,718,447)	(591,394)
Direct operating expense		(2,338,977)	(1,291,468)
Employee benefits expense		(1,546,484)	(992,331)
Amortisation expense		(1,901,530)	(1,534,566)
Depreciation expense		(70,198)	(37,861)
Gross loss		(651,128)	(1,499,800)
Investment revenue		97,488	144,912
Share based payments expense		(825,200)	(2,144,400)
Exploration and evaluation costs expensed		(987,638)	(2,672,911)
Finance costs		(284,229)	(206,261)
Corporate activity costs		(1,591,383)	(405,849)
General legal and professional costs		(141,251)	(1,591,434)
Foreign exchange gains losses		(669,878)	(175,839)
Other expenses		(284,023)	(1,028,521)
Loss before tax		(5,337,242)	(9,580,103)
Income tax expense		-	-
Loss for the year from continuing operations		(5,337,242)	(9,580,103)
Discontinued Operations			
Profit/(loss) from the year from discontinued operations	11	933,803	(815,055)
LOSS FOR THE YEAR		(4,403,439)	(10,395,158)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(727,934)	(62,879)
Loss on available-for-sale investments		-	(4,000)
Other comprehensive income for the year, net of tax		(727,934)	(66,879)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(5,131,373)	(10,462,037)
Loss attributable to:			
Owners of the parent		(4,288,033)	(10,133,367)
Non-controlling interests		(115,406)	(261,791)
		(4,403,439)	(10,395,158)
Total comprehensive income attributable to:			
Owners of the parent		(5,015,967)	(10,200,246)
Non-controlling interests		(115,406)	(261,791)
		(5,131,373)	(10,462,037)
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)		(0.2093)	(0.5406)
Diluted (cents per share)		(0.2093)	(0.5406)
From continuing operations			
Basic (cents per share)		(0.2606)	(0.5111)
Diluted (cents per share)		(0.2606)	(0.5111)

Notes to the condensed consolidated financial statements are included on pages 11 to 15.

Condensed consolidated statement of financial position as at 31 December 2010

	Notes	31-Dec-10 $	30-Jun-10 $
Assets			
Current assets			
Cash and bank balances		9,088,062	4,361,222
Trade and other receivables		3,985,012	2,038,006
Inventories		709,295	3,655,034
Other assets		408,195	219,036
		14,190,564	10,273,298
Assets classified as held for sale		-	10,481,710
Total current assets		14,190,564	20,755,008
Non-current assets			
Exploration and evaluation assets	8	33,763,743	29,039,354
Oil and gas assets	9	25,444,399	26,252,743
Property, plant and equipment	10	135,511	192,817
Other assets		215,111	183,615
Total non-current assets		59,558,764	55,668,529
Total assets		73,749,328	76,423,537
Liabilities			
Current liabilities			
Trade and other payables		2,270,429	1,030,325
Current tax liabilities		3,487,237	3,411,308
Provisions		132,418	73,126
		5,890,084	4,514,759
Liabilities directly associated with assets classified as held for sale		-	2,892,794
Total current liabilities		5,890,084	7,407,553
Non-current liabilities			
Provisions		3,306,258	3,266,303
Total non-current liabilities		3,306,258	3,266,303
Total liabilities		9,196,342	10,673,856
Net assets		64,552,986	65,749,681
Equity			
Issued capital		112,513,925	110,489,587
Reserves		6,927,208	3,755,429
Retained earnings		(54,888,147)	(50,600,114)
Equity attributable to owners of the parent		64,552,986	63,644,902
Non-controlling interests		-	2,104,779
Total equity		64,552,986	65,749,681

Notes to the condensed consolidated financial statements are included on pages 11 to 15.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2010

	Share capital	Equity-settled benefits reserve	Foreign currency translation reserve	General reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
	$	$	$	$	$	$	$	$
Balance at 1 July 2009	96,567,411	1,296,560	(1,477,486)	1,008,408	(25,995,206)	71,399,687	2,257,923	73,657,610
Loss for the year	-	-	-	-	(10,133,367)	(10,133,367)	(261,791)	(10,395,158)
Other comprehensive income for the year	-	-	(62,879)	-	-	(62,879)	-	(62,879)
Total comprehensive income	96,567,411	1,296,560	(1,540,365)	1,008,408	(36,128,573)	61,203,441	1,996,132	63,199,573
Recognition of share-based payments	-	2,144,400	-	-	-	2,144,400	-	2,144,400
Transfer of vested share based payments	3,440,960	(3,440,960)	-	-	-	-	-	-
Gain on available-for-sale investments	-	-	-	(4,000)	-	(4,000)	-	(4,000)
Shares issued during the year	14,955,667	-	-	-	-	14,955,667	-	14,955,667
Transaction costs of share issue	(1,036,688)	-	-	-	-	(1,036,688)	-	(1,036,688)
Balance at 31 December 2009	113,927,350	-	(1,540,365)	1,004,408	(36,128,573)	77,262,820	1,996,132	79,258,952
Balance at 1 July 2010	110,489,587	3,899,660	(1,152,639)	1,008,408	(50,600,114)	63,644,902	2,104,779	65,749,681
Loss for the year	-	-	-	-	(4,288,033)	(4,288,033)	(115,406)	(4,403,439)
Exchange differences arising on translation of foreign operations	-	-	(727,934)	-	-	(727,934)	-	(727,934)
Total comprehensive income	110,489,587	3,899,660	(1,880,573)	1,008,408	(54,888,147)	58,628,935	1,989,373	60,618,308
Reduction in non-controlling interest	-	-	-	-	-	-	(1,989,373)	(1,989,373)
Asset revaluation recognised				4,345,416	-	4,345,416	-	4,345,416
Profit on realisation of reserves	-	-	874,573	(1,913,376)	-	(1,038,803)	-	(1,038,803)
Recognition of share-based payments	-	825,200	-	-	-	825,200	-	825,200
Shares issued during the year	2,032,100	(232,100)	-	-	-	1,800,000	-	1,800,000
Transaction costs of share issue	(7,762)	-	-	-	-	(7,762)	-	(7,762)
Balance at 31 December 2010	112,513,925	4,492,760	(1,006,000)	3,440,448	(54,888,147)	64,552,986	-	64,552,986

Notes to the condensed consolidated financial statements are included on pages 11 to 15.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2010

	Notes	Dec-10 $	Dec-09 $
Cash flows from operating activities			
Receipts from customers		8,484,688	4,807,689
Payments to suppliers and employees		(5,300,975)	(7,527,650)
Cash (used in)/generated by operations		3,183,713	(2,719,961)
Interest received		97,488	84,456
Interest paid		(748)	-
Net cash generated/(used in) by operating activities		3,280,453	(2,635,505)
Cash flows from investing activities			
Payments for exploration & evaluation		(4,319,588)	(4,602,308)
Payment for property, plant and equipment - oil and gas assets		(554,923)	(1,823,319)
Payment for property, plant and equipment - other assets		(38,044)	-
Proceeds from sale of property, plant and equipment - oil and gas assets		105,000	118,701
Proceeds from sale of subsidiary (net of cash disposed)		4,329,877	-
Net cash (used in) investing activities		(477,678)	(6,306,926)
Cash flows from financing activities			
Proceeds from issues of equity shares		500,000	14,955,667
Payment for share issue costs		(7,762)	(786,688)
Net cash generated by financing activities		492,238	14,168,979
Net increase in cash and cash equivalents		3,295,013	5,226,548
Cash and cash equivalents at the beginning of the year		6,520,983	8,141,877
Effects of exchange rate changes on the balance of cash held in foreign currencies		(727,934)	(394,735)
Cash and cash equivalents at the end of the year		9,088,062	12,973,690

Notes to the condensed consolidated financial statements are included on pages 11 to 15.

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 2010 annual financial report for the financial year ended 30 June 2010, 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 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

AASB 2009-5 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. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments 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. However, the only amendment that has had a material impact and resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements is the presentation of development costs in the statements of cash flows. AASB 107 *Statement of Cash Flows* has been amended through AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statements of cash flows.

Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 *Intangible Assets* for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows. Prior year amounts have been restated for consistent presentation.

2. Segment Information

AASB 8 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.

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 are therefore as follows:

- Mature oil projects
- New oil projects
- Wet gas 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-10	31-Dec-09	31-Dec-10	31-Dec-09
	$	$	$	$
Mature oil projects	8,304,655	2,802,333	769,528	(574,322)
New oil projects	489,964	145,487	(28,999)	107,174
Wet gas projects	129,889	-	(42,032)	91
Divestment assets	-	-	(916,150)	(2,704,594)
New ventures	-	-	(1,621,832)	(1,130,455)
Total from continuing operations	8,924,508	2,947,820	(1,839,485)	(4,302,106)
Investment revenue			97,488	144,912
Central admin costs & directors salaries			(3,311,017)	(5,216,648)
Finance costs			(284,228)	(206,261)
Loss before tax (continuing operations)			(5,337,242)	(9,580,103)

Other segment information

	Amortisation and Depreciation		Additions to non-current assets	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	$	$	$	$
Mature oil projects	1,303,741	1,534,566	1,009,820	1,152,328
New oil projects	597,789	-	1,245,319	3,243,913
Wet gas projects	-	-	2,710,090	287,554
Unconventional projects	-	-	361,094	-
Divestment assets	-	-	327,797	1,023,498
New ventures	-	-	97,746	-
Other	70,198	37,861	42,167	-
	1,971,728	1,572,427	5,794,033	5,707,293

	Impairment losses		Exploration write off	
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
	$	$	$	$
New oil projects	-	-	7,608	1,750
Wet gas projects	-	-	76,095	-
Divestment assets	-	-	903,935	2,671,161
	-	-	987,638	2,672,911

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.

3. Impairment of oil and gas assets

During the half-year reporting period, the consolidated entity reviewed all of its oil and gas assets for impairment. No impairment of these assets has been identified in the current period.

During the year ended 30 June 2010, the consolidated entity carried out a review of the recoverable amount of its oil and gas assets. The review led to the recognition of an impairment loss on the Australian oil and gas assets of $11,266,946.

4. Issuances, repurchases and repayments of equity securities

During the half-year reporting period, Drillsearch Energy Limited issued: 10,000,000 ordinary shares for $500,000 on exercise of options; and 20,534,633 towards acquisition of exploration interest in various PEL106 permits. There were no other movements in the ordinary share capital or other issued share capital of the company in the current or prior half-year reporting period.

During the year ended 30 June 2010, Drillsearch Energy Limited issued: 20,000,000 ordinary shares for $1,000,000 on exercise of options, placement of 191,674,739 ordinary shares for $9,583,737 and 87,438,594 ordinary shares for $4,371,930 under the share purchase plan.

5. Contingencies and commitments

Contingencies

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

On 12 May 2009, Odin Energy Limited announced that it had added Great Artesian Oil and Gas Limited, a subsidiary of Drillsearch, to legal proceedings brought by Odin against Kompliment Pty Limited and its holding company, Blue Energy Limited, 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. The attempts to resolve the matter at mediation were unsuccessful and Great Artesian is continuing a dialogue with the other parties in an attempt to extricate itself from the proceedings.

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

Commitments

	31-Dec-10 $	30-Jun-10 $
Oil and gas properties		
Not longer than 1 year	14,051,349	17,870,680
Longer than 1 year and not longer than 5 years	22,907,252	13,178,944
Longer than 5 years	-	-
	36,958,601	31,049,624

	31-Dec-10 $	30-Jun-10 $
Operating lease commitments (office rental)		
Not longer than 1 year	371,556	186,585
Longer than 1 year and not longer than 5 years	1,114,668	746,339
Longer than 5 years	-	-
	1,486,224	932,924

6. Tax liabilities

In the 2009 financial year, Drillsearch Energy Canada Incorporated, a wholly owned subsidiary of Drillsearch, received a re-assessment for the 2000 taxation year. The liability shown in the financial statements including penalties and interest is CAD $3,272,030. During the period the Company negotiated a settlement with the Canadian Revenue Authority as to the underlying value of the transaction that was in dispute. The Company is awaiting a re-assessment of the 2000 taxation year.

7. Subsequent events

Subsequent to balance date the following material events have occurred:

- On 6 January 2011, the Company announced to the ASX an update on the Western Cooper Gas and liquids project, declaring together with Beach Energy the Canunda Condensate Discovery commercial.
- On 3 February 2011, the Company announced the completion of the approved consolidation of the Company's shares on a one-for-ten basis.
- None of the above is reflected in these financial statements.
- On 18 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. Consideration for the sale will be $2.3m comprising cash of $700,000 with the balance payable in shares in a proposed new entity for which an ASX listing is planned in 2011. The listed entity will be the legal and/or beneficial direct or indirect owner of 100% of the interests in the Gippsland Basin Permits. The sale is conditional upon relevant government approvals and the successful ASX listing of the proposed new entity. Should the listing of the proposed new entity not occur within an agreed timeframe, then all title rights to the three permits will transfer back to the Company.

8. Exploration and evaluation

	31-Dec-10 $	30-Jun-10 $
Opening balance	29,039,354	30,278,365
Acquisitions	1,449,997	-
Reclass from asset held for sale	1,120,471	-
Expenditure incurred during the year	3,049,846	7,712,380
Expenditure expensed during the year	(987,638)	(3,754,543)
Changes in decommissioning obligations	-	(54,207)
Reclassified from/(to) oil and gas assets	91,713	(4,425,986)
Reclassified as asset held for sale	-	(773,709)
Foreign currency translation	-	57,054
Balance carried forward	33,763,743	29,039,354

9. Oil and gas assets

	31-Dec-10 $	30-Jun-10 $
Opening balance	26,252,743	37,033,739
Expenditure incurred during the year	1,252,023	4,920,932
Depletion and amortisation expense	(1,901,530)	(3,618,494)
Disposals during year	(764)	-
Impairment charges	-	(11,266,946)
Changes in decommissioning obligations	-	614,129
Reclass (to)/from exploration & evaluation assets	(91,713)	4,425,986
Reclass from property plant and equipment	-	14,988
Reclassified as asset held for sale	-	(5,644,894)
Foreign currency translation	(66,360)	(226,697)
Balance carried forward	25,444,399	26,252,743

10. Plant property and equipment

	31-Dec-10 $	30-Jun-10 $
Opening balance	192,817	177,255
Expenditure incurred during the year	42,167	176,967
Depreciation expense	(70,198)	(108,760)
Disposals during year	(29,275)	(11,782)
Reclassified to oil and gas assets	-	(14,988)
Reclassified as asset held for sale	-	(24,096)
Foreign currency translation	-	(1,779)
Balance carried forward	135,511	192,817

11. Disposal of interest in subsidiary

Disposal of interest in Circumpacific Energy Corporation (discontinued operation)

On 11 November 2010, the Group disposed of all of its interests in Circumpacific. The proceeds on disposal of $5,938,143 were received in cash and assets, being the remaining interest in South West Queensland blocks. The loss for the period from the discontinued operations is analysed as follows:

	4 months ended 31 Oct 2010 $	6 months ended 31 Dec 2009 $
Loss of Circumpacific Energy for the period	(559,409)	(815,055)
Profit on realisation of reserves	1,038,803	-
Profit on disposal	454,409	-
	933,803	(815,055)

The following were the results of Circumpacific for the period:

	4 months ended 31 Oct 2010 $	6 months ended 31 Dec 2009 $
Revenue	1,142,769	1,383,159
Expenses	(1,702,178)	(2,198,214)
Loss before tax	(559,409)	(815,055)
Income tax expense	-	-
Loss after Income tax	(559,409)	(815,055)

The net assets of Circumpacific at the date of disposal were as follows:

	31-Oct-10 $
Net assets disposed of	5,483,734
Profit on disposal	454,409
Total consideration	5,938,143
Satisfied by cash, and net cash inflow arising on disposal	5,938,143

A profit of $454,409 was recognised on the disposal of Circumpacific.