

# Quarterly Report



## Highlights

- Revenue from Australian operations of \$3.0m for the quarter, up from normalised Australian revenues of \$2.87m recorded in the December 2010 quarter. The December 2010 quarterly normalised Australian revenues backed out a one-off sale of inventory oil on the decommissioning of the Jackson to Moonie pipeline (\$3.75m). Canadian revenues also ceased in the December 2010 quarter following the sale of Drillsearch's interest in Circumpacific.
- Australian production of 26,332bbls, a decline of 10% on the previous quarter.
- A cash position of \$8.5m with no debt.
- Completed sale of non-core assets – the Gippsland Basin permit to Larus Pty Ltd and the Naccowlah block interests to Bounty Oil and Gas NL.
- Completion of the share consolidation.

## Financial highlights

Description	Units	9 months ended March 2011	December 2010 Quarter	March 2011 Quarter	Quarter Change	Quarter Change %
<b>Oil &amp; gas production</b>						
Australia	boe	73,990	29,345	26,332	(3,013)	-10%
Canada	boe	24,084	5,767	-	N/A	N/A
Total Production	boe	98,074	35,112	26,332	N/A	N/A
<b>Oil &amp; gas revenues</b>						
Australia	A\$	11,931,700	6,212,421 <sup>#</sup>	3,007,311	(3,205,110)	-52%
Canada	A\$	1,138,939	243,070	-	N/A	N/A
Total Sales Revenue	A\$	13,070,639	6,455,491	3,007,311	N/A	N/A
<b>Production expenditure</b>						
Australia	A\$	3,663,331	1,151,561	1,325,821	174,260	15%
Canada	A\$	556,263	130,129	-	N/A	N/A
Total Production Expenditure	A\$	4,219,594	1,281,690	1,325,821	N/A	N/A
<b>Oil &amp; gas capital expenditure</b>						
Australia	A\$	9,958,515	2,882,766	3,059,997	177,231	6%
Canada	A\$	519,174	80,680	-	N/A	N/A
Total Expl & Dev Expenditure	A\$	10,477,690	2,963,446	3,059,997	N/A	N/A
<b>Financials</b>						
Cash & Cash Equivalents	A\$	8,513,486	9,088,044	8,513,486	(574,558)	-6%
Debt	A\$	None	None	None	-	-
Hedging	A\$	None	None	None	-	-
<b>Capital</b>						
Issued Shares*	# millions	206.8	205.8	206.8	-	-
Unlisted options*	# millions	11.55	11.55	11.55	-	-

- Boe stands for barrels of oil equivalent

- Canada totals are 100% to 31 October 2010. Canadian cash and cash equivalents are not included. Drillsearch's 79.5% interest in CER was disposed off in November 2010 and is accounted for on an equity basis.

# Includes \$3.75m in one-off inventory sales

\* Drillsearch shares and options were consolidated on a 1 for 10 basis in January 2011. The December quarter numbers have been adjusted to reflect the consolidation.

## Production and revenue

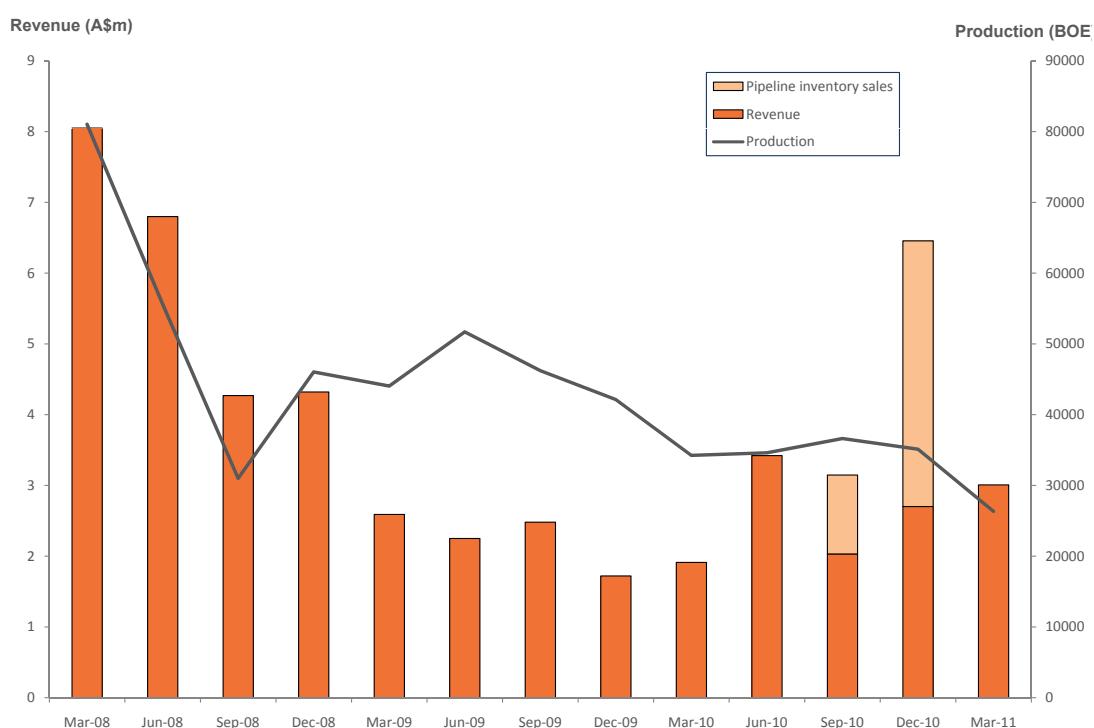
The strengthening of the oil price per barrel has helped to improve the Company's quarterly revenue. Drillsearch's operations realised a quarterly average oil price of A\$105.83/bbl. This compares favourably with a price of A\$86.98/bbl in the previous quarter. All of Drillsearch's oil sales are directly linked to the Brent oil index which is currently trading at \$10-15 above the regularly quoted West Texas Intermediate (WTI) oil price index.

Oil production for the March quarter was 26,332 barrels (bbls), which was a 10% decrease over the prior quarter (29,345bbls). This natural production decline is expected to be augmented in the fourth quarter by barrels produced during the extended production test at Canunda undertaken in April 2011.

The number of barrels sold in Australia for the quarter was 28,189bbls, a 60.5% decrease over the previous quarter of 71,424bbls which included a one-off extraordinary item of 43,771bbls of inventory held in the decommissioned Jackson to Moonie pipeline. When compared to the adjusted December 2010 quarter less one-off items (27,653bbls), overall sales in Australia for the quarter were up 2%.

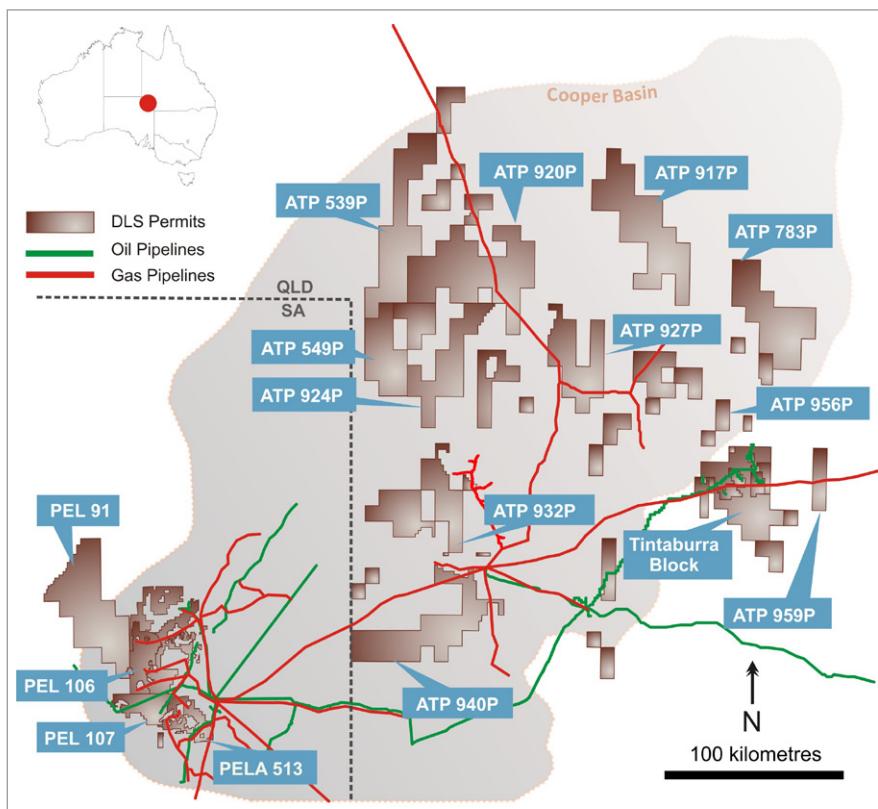
Australian revenues for the March quarter were \$3.0m, which was 52% lower than the previous quarter of \$6.46m. As mentioned above, the previous quarter included an extraordinary one-off sale of \$3.75m related to the Jackson to Moonie pipeline inventory sale. When the December 2010 quarter is adjusted for one-off revenue (\$2.71m) Australian revenues for the March quarter were 11% higher than the previous quarter.

### Revenue and Production History (Australia & Canada)



Source: Drillsearch Energy Ltd

## Development and exploration



Drillsearch's Cooper-Eromanga Basin Assets

Source: Drillsearch Energy Ltd

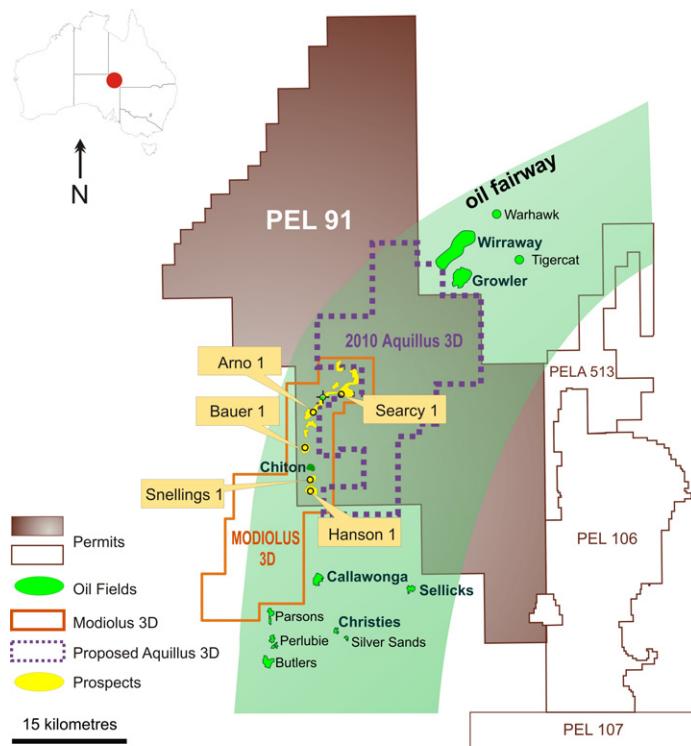
## Oil Business

There was no drilling activity in the last quarter. The drilling of five exploration wells in PEL 91 in the Cooper-Eromanga Basin Western Flank Oil Fairway in South Australia (see attached map on the next page) had been planned but has been delayed due to unseasonal wet weather in the

Cooper-Eromanga Basin and essential repairs required to be undertaken on the Ensign #18 drilling rig. The drilling campaign is now expected to commence in May 2011. The working interests in PEL 91 are Drillsearch (60%) and Beach Energy as Operator (40%).

PEL 91 Drilling Program					
Prospect	Recoverable*		Total Depth (mRT)	Primary Objective	Secondary Objective
	Mean (bbls)	High (bbls)			
Hanson	820,000	2,000,000	1950	Namur	Birkhead, Hutton & Poolowanna
Snellings	430,000	1,000,000	1935	Namur	Birkhead, Hutton & Poolowanna
Searcy	1,100,000	2,200,000	1959	Intra or mid Birkhead	Poolowanna
Bauer	520,000	1,100,000	1935	Namur	Birkhead, Hutton & Poolowanna
Arno	580,000	1,170,000	1960	Namur	Mid or lower Birkhead

\* unrisked prospective recoverable oil resources



Source: Drillsearch Energy Ltd

A discovery in any of these prospects would add significantly to Drillsearch's Reserves and overall production. We are optimistic as to our likelihood of drilling success given our historical success rate of over 50% in the Cooper-Eromanga Basin region when drilling on 3D seismic.

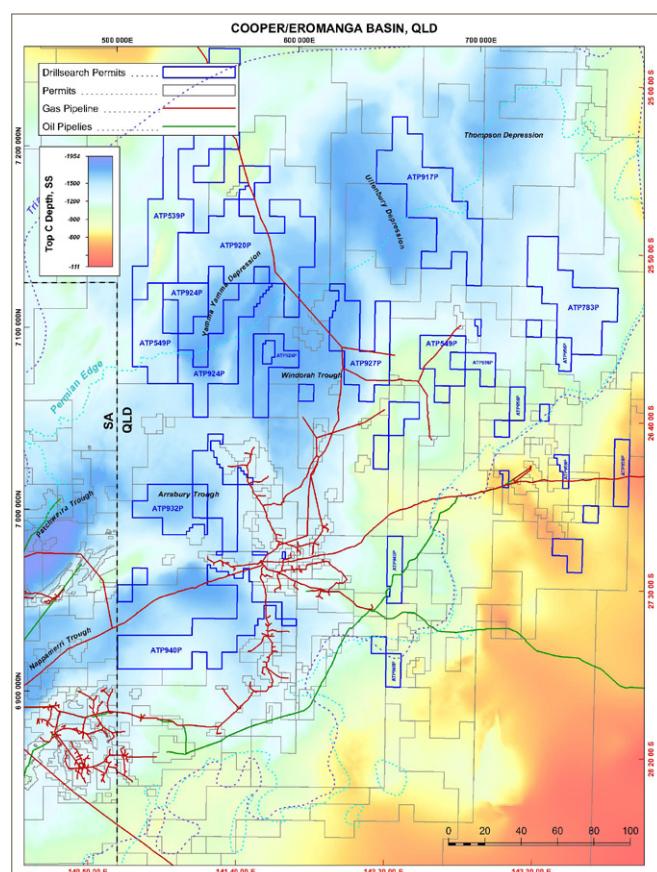
The PEL 91 "Aquillus" 3D Seismic Survey of 434km<sup>2</sup> has been held back due to flooding in the Cooper-Eromanga Basin and a revised commencement date of June 2011 is now expected. The survey will cover over 20 Namur sandstone oil prospects previously identified in the block as well as potential prospective Birkhead Formation plays on trend with the Wirraway, Growler and Snatcher oil discoveries in PEL's 114 and 104.

Significant progress has been made in continuing to mature through to award the eight South West Queensland ATP blocks. Landmark agreements have been reached with the Boontamarra, Kullilli and Wongkamurra Traditional Owners and discussions are progressing well with the Mithaka Traditional Owners.

Drillsearch has also entered into Cultural Heritage Management Plan Agreements with the three Traditional Owners. These agreements are necessary to be able to conduct exploration and production activities within the ATPs.

Drillsearch has been advised by the Queensland Government that the Right to Negotiate and other gazettal notices will all be issued by mid-July 2011. Upon completion of this process, a formal offer and award of the ATP exploration licenses will be made. Drillsearch was awarded preferred bidder status for each of these ATP exploration blocks in late 2007.

There was no drilling activity during the quarter in the Tintaburra Joint Venture (Drillsearch 11%). Production for the quarter was 151,459bbls (gross). The Tintaburra Joint Venture has finished processing 213km<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.



Source: Drillsearch Energy Ltd

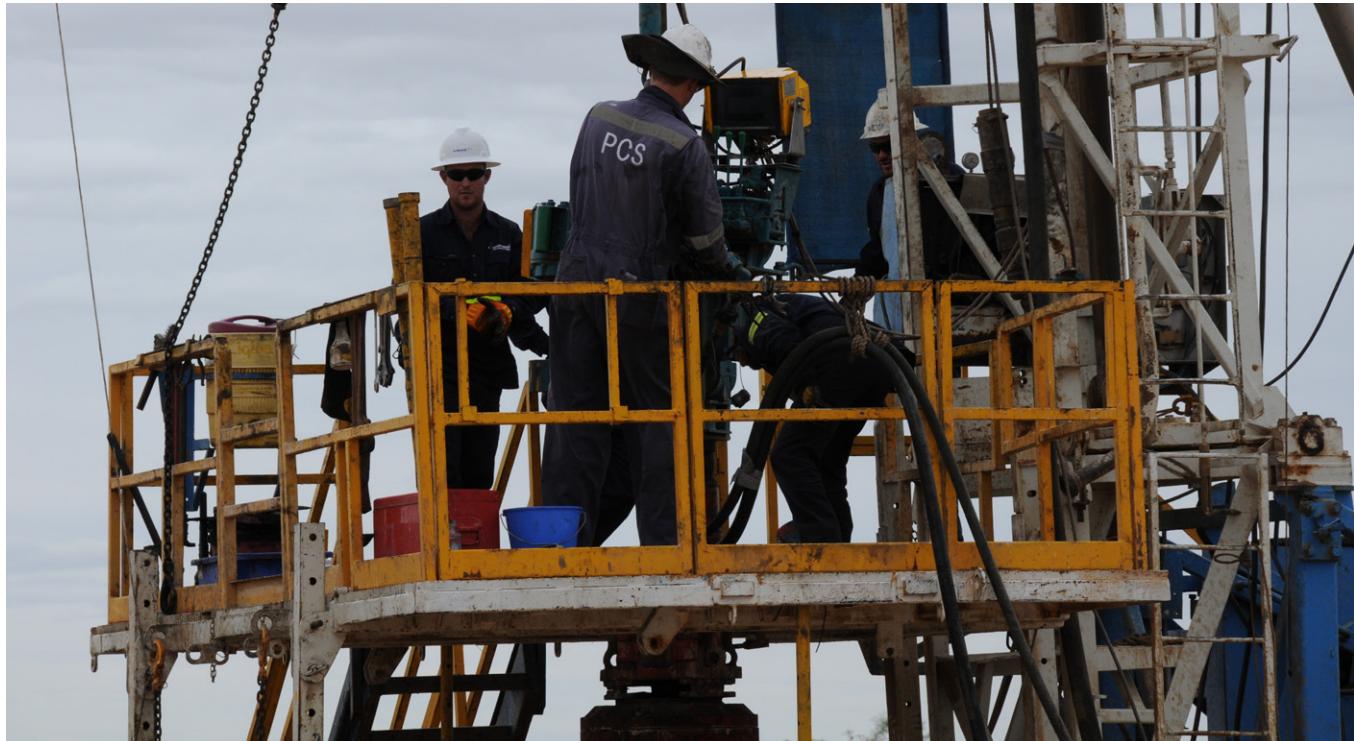
## Wet Gas Business

The Extended Production Test (EPT) for the Canunda Wet Gas Discovery took place in April 2011 over 12.5 days and yielded promising results of up to 6MMscfd of gas and 1,100bopd of Condensate on a 38/64" choke. The well will be shut in pending further evaluation of subsurface pressure data to determine the size of the gas reservoir.

Drillsearch is now working on commercialising the gas and hydrocarbon liquids in PEL 106 as well as continuing to review drilling locations in PEL 106. Our focus is on a forward program of appraisal drilling and testing of the existing discoveries as well as new exploration wells. Discussions are ongoing with our Joint Venture partner in PEL 106B, Beach Energy, to help firm up the planned drilling program.

Drillsearch announced in December 2010 that the Canunda Liquids Discovery was estimated to contain Contingent Resources of 2.8MMboe (2C), including 0.93MMBbls of condensate/light oil and 46,000 tonnes of LPG. Beach has declared the Brownlow, Canunda and Middleton Discoveries commercial and justified for development, and carries these discoveries as 2P Reserves. Drillsearch is reviewing the status of the Canunda Discovery for reclassification as Reserves now that an overall development plan for PEL 106B has been tabled by the Joint Venture.

As part of the PEL 106B pending development Gaffney Cline and Associates (GCA) is currently undertaking a review of the Brownlow, Canunda, Middleton and Udacha Discoveries for reclassification to Reserves status as justified for development.



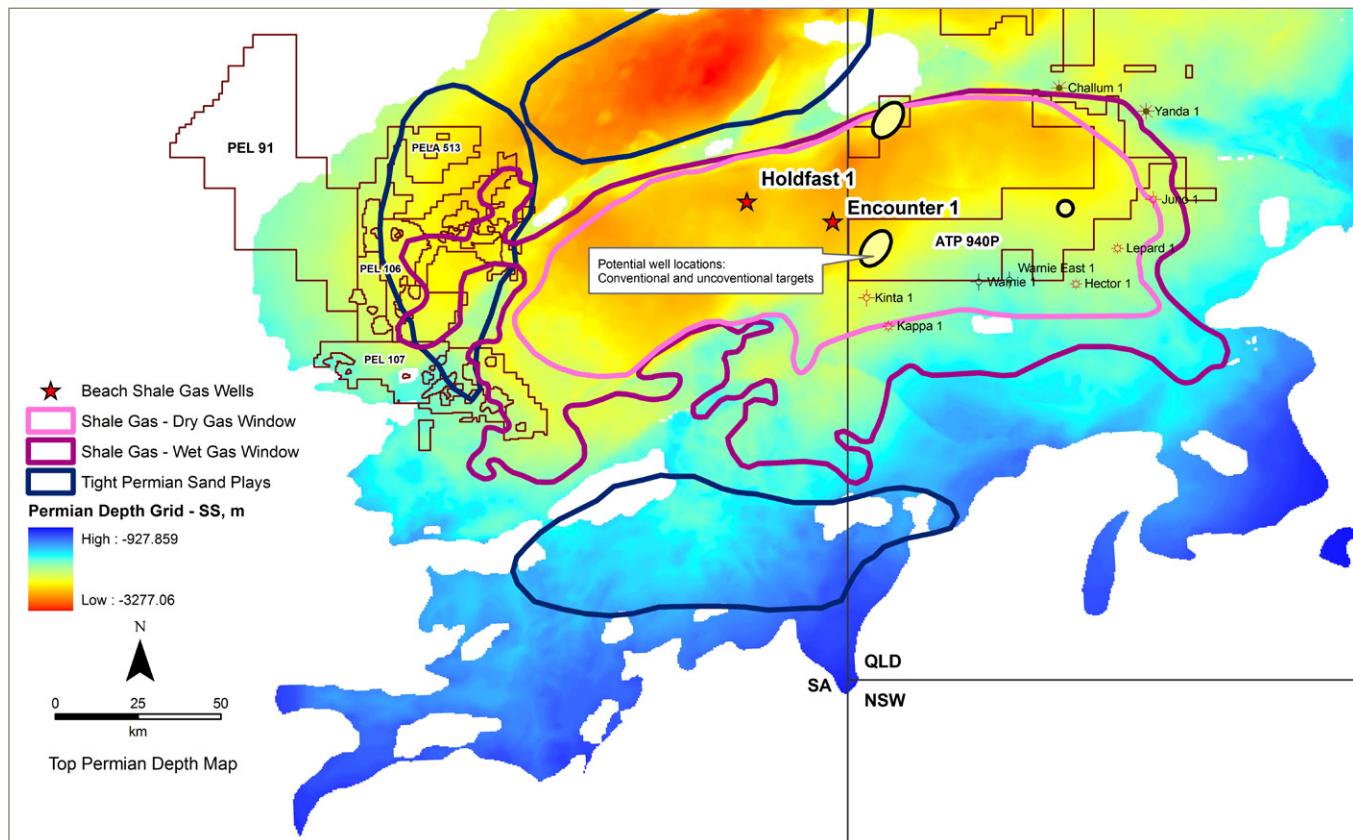
Canunda-1 Workover

Source: Drillsearch Energy Ltd

## Unconventional Gas Business

Drillsearch is currently undertaking geological modelling of the Cooper-Eromanga Basin in order to fully understand the potential for shale gas resources and will continue to evaluate the unconventional resource through future conventional drilling programs in PEL 106 and other permits in the Cooper-Eromanga Basin.

Drillsearch will continue to monitor the results from Beach Energy's Encounter and Holdfast wells in PEL 218 which borders Drillsearch's ATP 940P permit to the northwest. Drillsearch is continuing to work towards identifying potential drill locations for both conventional and unconventional targets.



Source: Drillsearch Energy Ltd

## Financial Position

Drillsearch remains in a sound financial position. The cash balance at the end of March 2011 was \$8.5m with no debt. Actual cash payments for Australian exploration, appraisal and development expenditure for the March quarter were \$3.0m.

## Corporate

### Portfolio Rationalisation

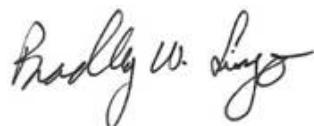
In keeping with the focus of the Company's activities in the Cooper-Eromanga Basin, the Company has finalised a number of divestments. These include the sale of its Naccowlah Block interest to Bounty Oil and Gas NL for \$1.15m comprised of \$950,000 cash and \$200,000 in Bounty Oil and Gas NL common stock and the sale of the Gippsland Basin permits to Larus Energy Pty Ltd for \$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.

With the Company solely focused on the potential of its Cooper-Eromanga Basin permits we now look forward to delivering organic growth from the Basin.

### Share Consolidation

At the Annual General Meeting held on 23 November 2010, the shareholders of Drillsearch resolved that the issued capital in Drillsearch be consolidated on the basis that every 10 shares be consolidated into one share and that this would take effect on a date to be announced to the ASX in accordance with the Listing Rules. The share consolidation is now complete.

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**About Drillsearch Energy Limited** (ASX: DLS), which listed on ASX in 1987, explores and develops both conventional and unconventional 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.

**Competent Person Statement** Information on the Reserves and Resources in this release is based on information provided to the Company by Beach Energy Ltd as operator of the PEL 91 and PEL 106 Joint Ventures and compiled by Mr. David Evans, Chief Technical Officer of Drillsearch who 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.