

Quarterly Report



Highlights

- Successfully completed equity capital raising of \$48 million, to fund further exploration and development in the PEL 91 Western Flank Oil Fairway, develop the PEL 106B Wet Gas pilot project and a broad exploration program across Drillsearch's Oil, Wet Gas and Unconventional business.
- Drilled three new oil discoveries out of three exploration wells in the Western Flank Oil Fairway in PEL 91 as part of a five well exploration program. The three oil discoveries at Hanson-1, Snellings-1 and Arno-1¹ have a preliminary volumetric assessment of between 4.6MMbbls (best) and 6.9MMbbls (high) gross oil in place.
- Formed a strong cash position of \$50 million with no debt.
- Reclassified additional commercial reserves at its Western Cooper wet gas discoveries in PEL 106B with 2P gas and liquids Reserves increasing 887% to 8.49MMboe (DLS share).
- Maintained Australian production of 23,379bbls for the quarter, a decline of 12% on the previous quarter.

¹Spudding and subsequent oil discovery at Arno-1 occurred post 30 June 2011.

Managing Director's comments

The June quarter has heralded several significant events in the history of the Company. During the quarter we commenced our five well oil drilling program at PEL 91 in the Cooper Basin Western Flank Oil Fairway in South Australia. With three successes thus far, including one post 30 June, we have made an excellent start to the program. We are encouraged by this success which speaks to the prospectivity of the asset and as a result, with our Joint Venture partner Beach Energy, are looking to extend the drilling program at PEL 91.

During May, we announced our intention to undertake a capital raising to raise \$48 million. We attracted significant interest from institutional investors and as a result, our share register is now bolstered by a robust institutional presence. We are currently utilising the proceeds from the capital raising to further progress our PEL 91 oil exploration and development program, develop the PEL 106B Wet Gas pilot project and undertake a broad exploration program across our Oil, Wet Gas and Unconventional businesses. We now have a well-capitalised balance sheet that allows us to develop opportunities as they present themselves, creating value for our shareholders.

In our Western Cooper Wet Gas assets in PEL 106B, our independent reserve auditors, as a result of progress in our commercialisation plans, upgraded our Contingent Resources to Reserves. The audited review significantly increased our 2P gas and liquid Reserves by 887% to 8.49MMboe (DLS share). The commercialisation plan is to develop our Brownlow, Canunda, Middleton and Udacha wet gas discoveries from which we are targeting first production in the December quarter this year.

During June the Board and Management team had the pleasure of meeting with the traditional land owners, the Boonthamurra, Kullilli, Mithaka and Wongkamurra, who collectively make up the people groups within our South West Queensland ATP blocks. We made significant progress in maturing these ATP exploration licences through to award with both Native Title Agreements and Cultural Heritage Management Plan Agreements now completed. Award of the ATP exploration licences from the Queensland government is anticipated sometime in the December quarter.

Hills around Innamincka



Production and revenue

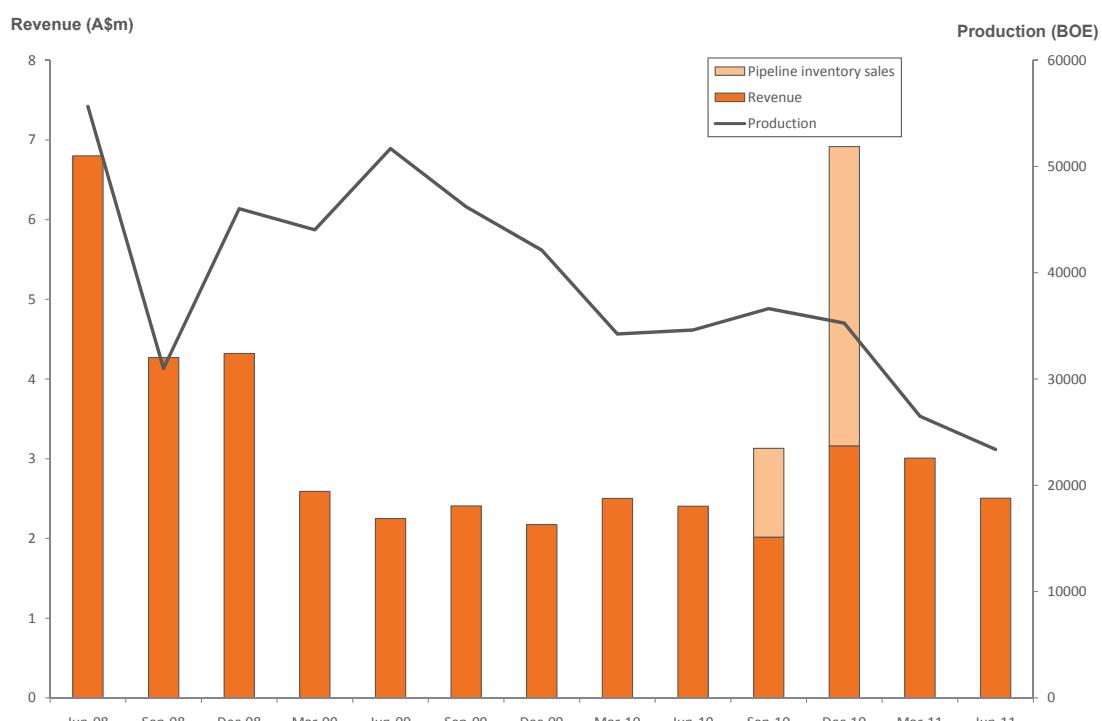
The flooding in the Cooper-Eromanga Basin and the shut-down of the Tantanna to Moomba crude oil pipeline for repairs has again hampered Drillsearch's production capacity by limiting road access to the Chiton Oil Field for transporting oil production to market. Total oil production for the June quarter was 17,173bbls a 35% decline over the prior quarter (26,501bbls). It is anticipated that the floods will recede during the September quarter and that Chiton production will resume in the December quarter along with production from the newly discovered Hanson Field, followed closely by the other discoveries made recently in PEL 91.

Wet gas production from the Canunda Extended Production Test (EPT) during the quarter was 6,206bbls

(DLS share). During the EPT, Condensate was produced with the natural gas flared. Drillsearch is committed to commercialising its wet gas discoveries and expects first gas production to be booked in the December quarter.

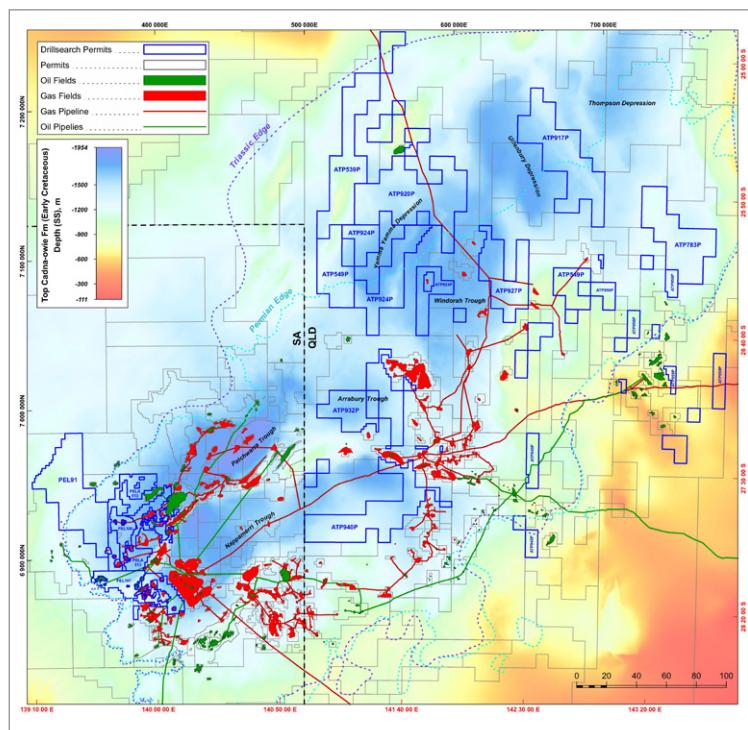
Australian sales revenue for the June quarter was \$2.5 million, which is a 17% decrease over the previous quarter (\$3.0 million). As mentioned above this decline can be largely attributed to Chiton production being offline and has been eased by the sale of Condensate from the Canunda EPT and the strengthening of the oil price. Drillsearch sold 21,550bbls in the quarter and realised an average oil price of \$113.44 which compares favourably to \$105.83 of the previous quarter.

Revenue and Production History (Australia & Canada)



Source: Drillsearch Energy Ltd

Development and exploration



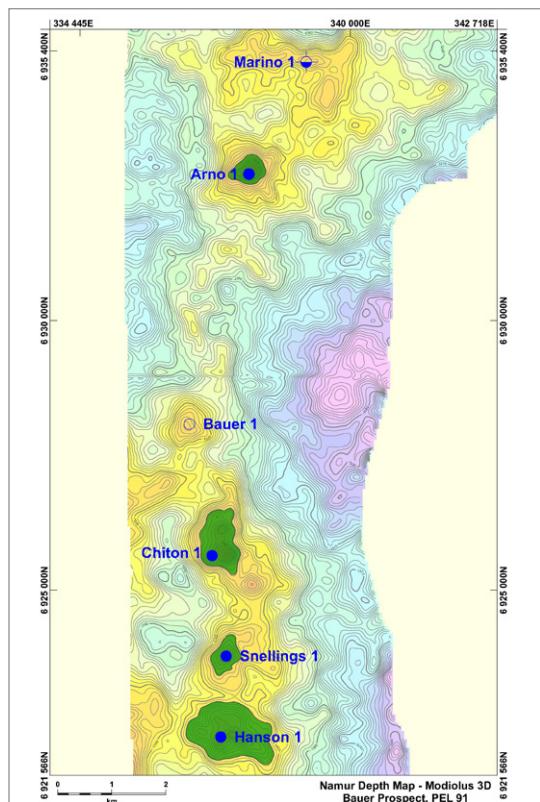
Drillsearch's Cooper-Eromanga Basin Assets

Source: Drillsearch Energy Ltd

Oil Business

The June quarter has delivered strong results with significant oil discoveries from wells drilled on the Western Flank Oil Fairway. The five well drilling program commenced on 23 May 2011 with the spudding of Hanson-1. Hanson-1 delivered Drillsearch the first oil discovery of the campaign with a seven metre Namur oil column giving between 3.3MMbbls (best) and 5MMbbls (high) gross oil in place. This success was quickly followed by another with the Namur oil discovery at Snellings-1 adding another 210,000bbls (best) to 320,000bbls (high) gross oil in place.

Post 30 June 2011, a third success on the Western Flank came with the oil discoveries at Arno-1 which showed multiple pay zones in both the McKinlay-Namur with a seven metre oil column and the Birkhead with a six metre oil column. The combined gross oil in place from both of these formations is expected to be between 1.1MMbbls (best) and 1.6MMbbls (high). A portion of the operations of the Arno-1 discovery well were undertaken by Drillsearch on a sole risk basis and as such the rights to Arno-1 production are currently held 100% by Drillsearch subject to various back-in rights under the PEL 91 Joint Operating Agreement.



PEL 91 - Drilling program to date

Source: Drillsearch Energy Ltd

Bauer-1 which is the fourth well in the program spudded on 24 July 2011 and will be targeting up to 1.3MMbbls (high) of gross recoverable oil from the Namur with secondary targets in the Birkhead, Hutton and Poolowanna Formations. The fifth well in the drilling program is Searcy-1 which will target the intra or mid Birkhead as the primary objective and the Poolowanna as the secondary objective for up to 2.2MMbbls (high) of gross recoverable oil.

Following the encouraging early success in the Western Flank Oil Fairway drilling program, Drillsearch along with Joint Venture partner, Beach Energy are looking to extend the drilling program to include a follow up well to Arno in a potentially larger and more productive Birkhead Channel Sand. The working interests in PEL 91 are Drillsearch 60% and Beach Energy as Operator 40%.

Further progress has been made in the process to mature, through to award, the eight South West Queensland ATP blocks. Negotiations with the Boonthamurra, Kullilli, Mithaka and Wongkamurra traditional owners have been completed with the Drillsearch Board of Directors and Management team meeting with the four groups in Charleville, Queensland for a signing of the agreements.

With Native Title Agreements and the Cultural Heritage Management Plan Agreements negotiated, the completion of the process including a formal offer of the ATP exploration licences is expected to occur in the December quarter 2011.

There was no drilling activity during the quarter in the Tintaburra Joint Venture (Drillsearch 11%). Production for the quarter was 15,803bbls (DLS share).

Traditional Owners - Boonthamurra, Kullilli, Mithaka and Wongkamurra with Drillsearch Board and Management team



Source: Drillsearch Energy Ltd

Wet Gas Business

As announced on 5 May 2011, the Western Cooper Wet Gas Discoveries have been declared commercial. Following an independent review by the Company's auditors Gaffney, Cline & Associates Ltd, Drillsearch can

now book the Condensate, LPG and Gas in each of these discoveries (Brownlow, Canunda, Middleton and Udacha) as Commercial Reserves. This increases the 2P gas and liquid Reserves by 887% to 8.49MMboe (DLS share).

Drillsearch Reserves & Contingent Resources					
	FYE 2010		4 May 2011		
2P Reserves	Gas & Liquids MMboe	Liquids Only MMbbls	Gas & Liquids MMboe	Liquids Only MMbbls	Total Gas & Liquids Reserve Increase over FYE 2010
Eastern Cooper Oil*	0.78	0.78	0.72	0.72	▲ 887%
Western Flank Oil**	0.08	0.08	0.14	0.14	
Western Cooper Wet Gas	0.00	0.00	7.63	3.12	
Total Reserves	0.86	0.86	8.49	3.98	
2C Contingent Resources					
Eastern Cooper	0.28	0.28	0.28	0.28	69% of total Contingent Resources moved to Reserves from Wet Gas Project
Western Flank Oil	0.0	0.0	0.0	0.0	
Western Cooper Wet Gas	11.52	3.95	3.37	1.19	
Total Contingent Resources	11.80	4.23	3.65	1.47	

* Adjusted for production since 30 June 2010. To be reviewed by Gaffney, Cline & Associates in Annual Reserve Audit

** Operator advice on Chiton 2P Reserve upgrade based on initial production results. To be reviewed by Gaffney, Cline & Associates in Annual Reserve Audit

Drillsearch is continuing to work on commercialising the gas and hydrocarbon liquids in PEL 106 and is now planning for further drilling in PEL 106A with an appraisal and development well at the Smegsy Field.

Smegsy-1 was drilled in 2004 on 2D seismic and when tested over a 12 hour period produced gas at 1.08MMscf per day together with 36bbls of Condensate. In 2007, Drillsearch acquired the Spinel 3D seismic which enabled the Company to better define the structures to optimise

the Smegsy drilling location. In conjunction with the new well, Drillsearch also plans on undertaking Production Testing on Paprika-1 and Cadenza-1. This activity in PEL 106A is anticipated to commence before the end of 2011.

In addition to the activity in PEL 106A, Drillsearch is in talks with Joint Venture partner Beach Energy for the drilling of an additional four to five infield development wells in PEL 106B with an anticipated start in the December quarter 2011.

Unconventional Gas Business

Drillsearch is currently undertaking seismic mapping of the area around ATP 940P in order to map the Roseneath, Epsilon and Murteree (REM) shale sections. The Company will continue to follow the 'Look, Listen and Learn' approach to shale gas in the Cooper-Eromanga Basin. Drillsearch is encouraged by the performance of companies operating in neighbouring locations, in particular the recent results announced by Beach Energy with regard to the testing of their Holdfast well in PEL 218 which borders Drillsearch's ATP 940P permit to the north-west.

Drillsearch's activity and investment is targeted to the "EAD Life Cycle" being exploration, appraisal and delineation and accordingly the Company continues to assess all its options for developing this asset including the potential to involve a Joint Venture or strategic partner to further the development and commercialisation of its significant unconventional resources.

Financial position

Drillsearch has a strong financial position with a cash balance at the end of June 2011 of \$50 million with no debt. This is primarily due to the successful capital raising completed during the quarter.

The financial information presented in this report is unaudited. A net loss is anticipated for the Company in the full year ended 30 June 2011. This loss is expected to be a significant improvement on the full year loss for 30 June 2010 of \$24.8 million.

Corporate

Capital Raising

Drillsearch announced on 16 May 2011 that it was undertaking a \$48 million equity capital raising to fund its extensive oil and gas drilling programs, commercialisation of existing gas discoveries and exploration and appraisal of unconventional prospective resources.

The capital raising consisted of an underwritten, pro rata entitlement offer to eligible shareholders, which raised

funds totalling \$17 million, an unconditional placement to institutional investors raised \$15 million and a conditional placement totalling \$16 million which was approved by shareholders on 17 June 2011.

The capital raising has provided Drillsearch with a well-capitalised balance sheet to enable it to develop its significant opportunities.

Financial highlights

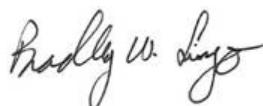
Description	Units	12 months ended June 2011 (Unaudited)	3 months ended June 2011 (Unaudited)	3 months ended March 2011 (Unaudited)	Quarter Change %
Production summary					
Oil (Australia)	bbls	91,332	17,173	26,501	-35%
Wet Gas (Australia)*	bbls	6,357	6,206	-	N/A
Divestment (Canada)	bbls	24,084	-	-	N/A
Total Production	bbls	121,773	23,379	26,501	-12%
Sales revenue					
Oil (Australia)	A\$	13,671,313	1,869,521	3,007,291	-38%
Wet Gas (Australia)	A\$	764,875	634,986	-	N/A
Divestment (Canada)	A\$	1,138,939	-	-	N/A
Total Sales Revenue	A\$	15,575,127	2,504,507	3,007,291	-17%
Realised Sales Price/bbls	A\$/bbls	92.7	113.4	105.0	8%
Direct operating expense					
Oil (Australia)	A\$	4,674,126	1,116,958	1,307,425	-15%
Wet Gas (Australia)	A\$	269,230	163,951	18,395	791%
Divestment (Canada)	A\$	556,263	-	-	N/A
Total direct operating expense	A\$	5,499,619	1,280,909	1,325,821	-3%
Oil & gas asset expenditure					
Oil (Australia)	A\$	1,599,556	213,535	183,408	16%
Divestment (Canada)	A\$	519,174	-	-	N/A
Total oil & gas asset expenditure	A\$	2,118,730	213,535	183,408	16%
Exploration & evaluation expenditure					
Oil (Australia)	A\$	5,831,555	3,246,298	1,533,859	112%
Wet Gas (Australia)	A\$	4,652,189	958,294	983,802	-3%
Unconventional (Australia)	A\$	449,438	62,047	26,298	136%
Corporate activity (Australia)	A\$	1,815,691	95,336	39,562	141%
Divestment (Australia)	A\$	400,787	-	70,565	-100%
Total exploration & evaluation expenditure	A\$	13,149,660	4,361,975	2,654,087	64%
Financials					
Cash & Cash Equivalents	A\$	50,258,607	50,258,607	8,513,522	490%
Debt	A\$	None	None	None	N/A
Hedging	A\$	None	None	None	N/A

- 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.

* Production of Condensate only from Canunda Extended Production Test

Further information

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About Drillsearch Energy Limited (ASX: DLS), which listed on ASX in 1987, explores and develops 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 PEL106B Joint Venture and Santos Limited as operator of ATP 299 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.

Competent Person Statement – Reserves and Resources provided by GCA Information on the Reserves and Resources in this release is based on an independent evaluation conducted by Gaffney, Cline & Associates and has been compiled under the supervision of Mr Steven Lane. Mr Lane is a Principal Advisor of Gaffney, Cline & Associates Singapore & Sydney Offices with over 30 years of industry experience. He holds a B.Sc. (Hons) Geology and is a member of the Petroleum Exploration Society of Great Britain. The technical analysis was performed primarily by Messrs Zis Katelis and David Remus. Mr Katelis has a B.Sc. (Hons) in Geophysics, is a member of the Society of Petroleum Engineers and the South East Asia Petroleum Exploration Society and has over 20 years industry experience. Mr. Remus holds a B.A. in Geology and Geophysics and is a life member of the South East Asian Petroleum Exploration Association (SEAPEX) with more than 31 years of experience in petroleum geosciences. These individuals have given their 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.

Glossary

ATP: Authority to Prospect

BBL(S): Barrel(s)

BOE: Barrels of oil equivalent (6 MSCF = 1 BOE)

BOPD: Barrels of oil per day

BOEPD: Barrels of oil equivalent per day

EPT: Extended Production Testing

FYE: Financial Year Ending

MSCF: Thousand stand cubic feet

MMSCF: Million stand cubic feet

MMSCFD: Million stand cubic feet per day

MMBBLs: Million barrels

MMBOE: Million barrels of oil equivalent

PEL: Petroleum Exploration Licence

2C: Proved plus probable reserves pending commercialisation

2P: Proved plus probable reserves.

P90: 90% probability

P50/Best: 50% probability

P10/High: 10% probability

Contingent Resources: The hydrocarbons that are estimated to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

Reserves: A calculation of the amount of hydrocarbon reserves that are in the formation.