

30 October 2009

## Quarterly Report Activities for the Quarter ended 30 September 2009

### Company Highlights

#### Financial

- Cash position has strengthened significantly. Cash at 30 September 2009 of \$13.28 million, with no debt, is adequate to meet existing project commitments.
- Australian sales revenue for the September 2009 Quarter (September Quarter) of \$1.57 million was materially unchanged compared with the previous Quarter.
- Canadian sales revenue of \$0.91 million for the September Quarter was up 33% compared with \$0.68 million for the previous Quarter.

#### Production

- Australian oil production for the September Quarter of 30,517 bbls was marginally lower than the previous Quarter.
- Canadian oil and gas production was 15,700 boe for the September Quarter (36% higher than the previous Quarter of 11,548 boe).

#### Development

- Development of Chiton Oil Discovery (PEL 91) – The Chiton Oil Field was discovered in August 2009 and completed for production in September 2009. Production facilities are planned to be completed and production commence by January 2010.
- Western Cooper Gas & Liquids Project (WCGL Project PEL 106) - Major resource upgrade announced by company and independently audit reviewed and verified by Gaffney, Cline & Associates Pty Ltd (GCA).
- Brownlow and Canunda Gas Condensate discoveries (PEL 106) – Completed as future production wells with extended production testing for both discoveries is projected to be completed in December 2009.

#### Exploration

- Western Flank Oil Fairway: Chiton Oil Discovery (PEL 91) – The first commercial oil discovery in PEL 91. Currently being developed by the joint venture.
- Western Flank Oil Fairway: Marino Oil Discovery (PEL 91) - The first Birkhead Formation oil discovery in PEL 91. Although plugged and abandoned, the company is currently reviewing these results to determine a forward appraisal strategy for the Marino Discovery.
- WCGL Project Significant Exploration Potential (PEL 106) – 21 prospects identified by the company with exploration potential of over 200 Bcf sales gas and 8 MMBbls condensate as additional exploration opportunities.
- Western Cooper Unconventional Gas Project – Commenced the evaluation of the unconventional gas potential of PELs 106 and, 107 and the eastern portion of PEL 91.

## Corporate

- Beach Takeover Bid – The company successfully defended the hostile takeover bid launched by Beach Petroleum on 5 May 2009.
- Board Renewal – Commenced in May 2009 with the appointment of Brad Lingo as the new Managing Director and continued with the appointment of Jim McKerlie as Chairman, the resignation of non-executive director, Peter Wicks and the appointment of non-executive directors, Ross Wecker and Fiona Robertson.
- Equity Placement – On 18 September 2009, the company successfully completed an equity placement raising \$9.58 million.
- Share Purchase Plan – The company also announced a share purchase plan offering shares to existing shareholders at \$0.05 per share (the same price as the equity placement).
- Portfolio Rationalisation – A thorough portfolio review is being conducted and several non-core assets have already been identified.
- Canada – The company is addressing several issues relating to its 79.5% owned TSXV-listed subsidiary, Circumpacific Energy Corporation (CER).

## Financials

Description	Units	Full Year 2008-2009	Year-to-date Sep 2009	June 2009 Quarter	September 2009 Quarter	Quarter Change	Quarter Change %
<b>Oil &amp; gas production</b>							
Australia	boe	118,526	30,517	30,675	30,517	-158	-1%
Canada	boe	70,312	15,700	11,548	15,700	4,152	36%
Total Production	boe	188,838	46,217	42,223	46,217	3,994	9%
<b>Oil &amp; gas revenues</b>							
Australia	A\$	9,977,156	1,562,446	1,572,367	1,562,446	-9,922	-1%
Canada	A\$	5,091,399	911,265	684,535	911,265	226,730	33%
Total Sales Revenue	A\$	15,068,555	2,473,711	2,256,902	2,473,711	216,808	10%
<b>Production expenditure</b>							
Australia	A\$	5,625,918	596,367	1,057,259	596,367	-460,892	-44%
Canada	A\$	2,474,685	425,345	291,142	425,345	134,202	46%
Total Production Expenditure	A\$	8,100,603	1,021,712	1,348,402	1,021,712	-326,690	-24%
<b>Exploration &amp; development expenditure</b>							
Australia	A\$	8,851,510	2,282,268	1,075,990	2,282,268	1,206,278	112%
Canada	A\$	498,000	317,586	41	317,586	317,627	N/A
Total Expl & Dev Expenditure	A\$	9,349,510	2,599,854	1,075,949	2,599,854	1,523,904	142%
<b>Financials</b>							
Cash & Cash Equivalents	A\$	7,753,418	13,281,369	7,753,418	13,281,369	5,527,950	71%
Debt	A\$	None	None	None	None	-	-
Hedging	A\$	None	None	None	None	-	-
<b>Capital</b>							
Issued Shares	# millions	1,728.43	1,934.11	1,728.43	1,934.11	206	12%
Unlisted options	# millions	45.50	31.50	45.50	31.50	-14.00	-31%

## Cash balance

Drillsearch's cash balance as at 30 September 2009 was \$13.28 million. Actual cash payments for exploration, appraisal and development expenditure for the September Quarter were A\$2.60 million (in contrast to the June Quarter of A\$1.08 million). Cash reserves were increased by \$9.58 million as a result of an equity placement and will be further increased at the completion of the current share purchase plan offer.

Drillsearch has adequate cash resources to meet its funding requirements for all of its existing capital commitments. Further details of exploration and development initiatives are outlined in this quarterly report.

### **Oil price**

Drillsearch's Australian operations realised a September quarterly average oil price of A\$81.69/bbl compared with A\$72.87/bbl last Quarter. For the month of September 2009, the average realised oil price was A\$71.79/bbl compared with A\$91.10/bbl in June 2009.

## **Production**

Australian oil production for the September Quarter of 30,517 bbls was in line with the June Quarter.

Canadian oil and gas production for the September Quarter from CER was 15,700 boe.

## **Development**

### **Development of Chiton Oil Discovery (PEL 91)**

Following the discovery of the Chiton Oil Field in August 2009, the Chiton-1 discovery well has been completed for production. Chiton-1 is the first commercial oil discovery in PEL 91 and the PEL 91 joint venture, Drillsearch (60%) and Beach Petroleum (40%), has commenced the design, construction and installation of early production facilities capable of producing up to 1,000 barrels of oil per day with fluid handling capacity of 7,000 bbls fluid per day. Production facilities are planned to be completed and production commenced by January 2010. The cost of the facility is budgeted at \$1.68 million of which Drillsearch's share is approximately \$1 million. Chiton-1 has an initial estimate of recoverable oil reserves 120,000 barrels (P50) and up to 390,000 barrels (P10).

Development of the Chiton Discovery is consistent with Drillsearch's key strategic priorities which include the development of oil and gas discoveries in the Western Cooper Basin. The Cooper Basin is Drillsearch's core focus area, where it is the 3<sup>rd</sup> largest tenement holder behind Santos and Beach Petroleum. Successful completion of this initial development at the Chiton Oil Discovery has the potential to increase substantially the company's oil production over the coming year and may achieve a quick payback on the investment made in the Chiton and Marino PEL 91 exploration programme.

### **Western Cooper Gas and Liquids Project (WCGL Project - PEL 106)**

On 27 October 2009, the company announced a major resource upgrade which was independently reviewed by Gaffney, Cline & Associates Pty Ltd (GCA) endorsing company estimates of Gross Contingent Resources of 41 Bcf sales gas and 1.9 MMBbls condensate. Contingent Resource (Gross) revenue potential of \$166 million to \$650 million marks an important milestone on the path towards commercialisation. The GCA Report has provided the company with independent confirmation of the discovered gas and liquids resources and the additional low risk exploration potential within PEL 106. The review has assisted Drillsearch in formulating an exploration and development plan for the project. This plan can be broken down into three main components:

- **Extended Production Testing of Existing Discoveries** – The next stage of the development of the project will involve the extended production testing (EPT) of the Brownlow and Canunda gas discoveries in the Beach Farmin Block (Beach 50% and Drillsearch 50%). Beach Petroleum as operator and Drillsearch have already approved this work. In parallel, Drillsearch is planning to complete and test the Paprika and Cadenza discoveries in the PEL 106 area held 100% by Drillsearch. It is anticipated that the EPT projects will be undertaken over the next quarter.

Successful completion of the EPT projects will provide increased confidence in the full development of these fields and entering into gas and liquids sales arrangements.

- **Gas and Liquids Marketing** - Drillsearch holds the gas marketing rights for the WCGL Project for both the 100% Drillsearch owned PEL 106 area and for the Beach Farmin Block. Drillsearch has previously successfully negotiated gas sales to the SACBJV from the Smegsy Gas Field and connection to the joint venture pipeline system. Drillsearch has initiated preliminary discussions with the SACBJV seeking to secure similar arrangements. The company is endeavouring to secure these arrangements over the next several months but the timing of any arrangements is subject to reaching agreement with the joint venture. In addition Drillsearch continues to evaluate stand-alone options independent of the existing joint venture facilities.
- **Additional Exploration and Appraisal Drilling** – In parallel with the EPT testing programme and the gas marketing activities, the company is currently determining the exploration programme for PEL 106 through the end of the current financial year. Ideally, the company believes that at least 2 additional exploration wells should be drilled in PEL 106 over this period to establish additional Contingent Resources to underpin the WCGL Project. The completion of the PEL 106 Prospectivity Review and endorsement of the Prospective Resources by GCA identified in the review has provided the company with the confidence to move forward with this programme and the prospects on which to focus.

## **Exploration**

### **Western Flank Oil Fairway – Chiton Oil Discovery (PEL 91 - 60% Drillsearch)**

Drillsearch and Beach Petroleum completed a 2-well exploration drilling campaign in PEL 91 drilling the Chiton-1 and Marino-1 wells. Chiton-1 is the first commercial oil discovery in PEL 91 and is currently being developed by the company and Beach Petroleum. Chiton-1 has an initial estimate of recoverable oil reserves of 120,000 barrels (P50) and up to 390,000 barrels (P10).

### **Western Flank Oil Fairway – Marino Oil Discovery (PEL 91 - 60% Drillsearch)**

Following the Chiton Oil Discovery, the company made a further oil discovery with Marino-1. The Marino Discovery is the first Birkhead Formation oil discovery in PEL 91 which is a prolific producing horizon at the Growler, Wirraway, Charo and Snatcher Oil Field NE of the Marino discovery. Marino-1 recovered approximately 3.5 barrels of oil (48.2° API at 60°F) after a 3 hour flow period. Extrapolation of this recovery volume and independent measurement of inflow rates from the DST pressures both indicated that the reservoir quality at this location was unlikely to produce oil at a commercial rate. However, the company is currently reviewing these results to determine a forward appraisal strategy for the Marino Discovery.

### **WCGL Project Significant Exploration Potential (PEL 106 – 50 to 100% Drillsearch)**

Following completion of the company's further interpretation of the 3D seismic covering PEL 106, the GCA Independent Review confirms the 21 prospects identified by the company and endorses total Unrisked Best Estimate Prospective Resource\* potential of over 200 Bcf sales gas and 8 MMBbbls condensate as additional exploration opportunities in WCGL Project and additional upside exposure to Unrisked Prospective Resource (High Estimate) potential up to 390 Bcf sales gas and 14 MMBbbls condensate. The best three exploration prospects have the potential to more than double the size of the WCGL Project.

### **Western Cooper Unconventional Gas Project**

The company has commenced the evaluation of the unconventional gas potential of the gassy Permian deep coal seams and carbonaceous shales dominant throughout PELs 106, 107 and the eastern portion of PEL 91. The company has identified two potential major unconventional gas resource plays – extensive Permian tight gas zones and deep gassy coal seams and carbonaceous

shales. Tight gas zones are broadly spread throughout the Western Cooper Project. Extensive Permian coal seams with a net average thickness of approximately 50 metres have been identified throughout PEL 106 based on extensive drilling results and 2D and 3D seismic coverage. The company has engaged MBA Petroleum Consultants to conduct a detailed review of the unconventional gas resources within the Western Cooper Project. The scope of the review is to determine the unconventional Prospective Resources within the 1,000 km<sup>2</sup> project area and to assist the company in developing the forward program to appraise and develop these unconventional gas resources.

## **Corporate**

### **Beach Takeover Bid**

The company successfully defended the hostile takeover bid launched by Beach Petroleum on 5 May 2009. Beach was only able to secure a 22.8% shareholding in the company and following the unsuccessful bid, Beach has reduced its interest to 10.5% as at 27 October 2009.

### **Board Renewal**

The Board renewal which commenced in May 2009 continued with: the appointment of Brad Lingo as the new Managing Director; the appointment of Jim McKerlie as Chairman; the resignation of Peter Wicks as non-executive director and the appointment of two independent non-executive directors, Ross Wecker and Fiona Robertson, to the Drillsearch Board.

### **Capital Raising**

On 18 September 2009, the company successfully completed an equity placement raising \$9.58 million at \$0.05 per share to new institutional and sophisticated investors. In parallel with the equity placement, the company also announced a share purchase plan offering shares to existing shareholders at \$0.05 per share (the same price as the equity placement). The share purchase plan is scheduled to close on 30 October 2009. The funds raised in the equity placement and the share purchase plan are principally targeted at funding the initial development of the Chiton Oil Discovery and the Western Cooper Gas and Liquids Project.

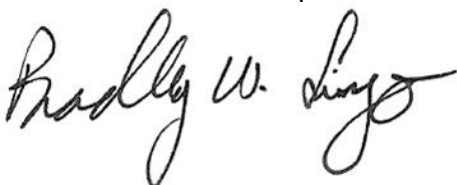
### **Portfolio Rationalisation**

A thorough portfolio review is being conducted and several non-core assets have already been identified. The company has engaged RFC Corporate Finance and RISC Pty Ltd to assist the company in further evaluating these assets and assisting it with sale and/or farmout process for these assets. The initial focus of the review has been on the company's non-Cooper Basin assets and the preliminary indications are that several of the assets are likely to be attractive to other parties either on a sale or farmout basis.

### **Canada**

The company is addressing several issues relating to its 79.5% owned TSXV-listed subsidiary, Circumpacific Energy Corporation. The company has been required to requisition a shareholders' meeting to vote on the election of new directors nominated by the company.

For further information please contact:



**Brad Lingo**  
**Managing Director**  
+612 9241 4440

Or visit the website [www.drillsearch.com.au](http://www.drillsearch.com.au)

**Competent Person Statement**

Information on the Reserves and Resources in this release is based on information compiled by Mr. Chris Carty, previously Chief Operating Officer and now consultant to Drillsearch, and Mr. Ken Grieves who have both 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. Mr. Carty's company is CCCT Enterprises Pty Limited. Mr. Grieves' company is In Depth Geophysics Pty Ltd.

About Drillsearch Energy Limited (ASX: DLS), which listed on ASX in 1987, explores and develops conventional oil and gas projects. Drillsearch Energy merged with Great Artesian Oil and Gas (ASX: GOG) in 2008. The merged group 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, as well as offshore exploration in the Carnarvon and Gippsland Basins. Drillsearch also has interests in PNG and Canada. 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