

Notice of Annual General Meeting and Explanatory Statement

2008 Annual Report:

<http://www.drillsearch.com.au/2008AnnualReport.html>

THIS IS AN IMPORTANT DOCUMENT

This document does not take into account your individual circumstances. If you are in doubt about how to deal with it, please consult your financial or other professional adviser.

**10.00 a.m.
Friday, 28 November 2008
Sir Stamford Hotel
93 Macquarie Street, Sydney
Drillsearch Energy Limited
ABN 73 006 474 844**

Notice of Annual General Meeting

NOTICE is given that the Annual General Meeting of Drillsearch Energy Limited (ABN 73 006 474 844) ("Company") will be held at the Sir Stamford Hotel, 93 Macquarie Street, Sydney, New South Wales at 10.00 a.m. on Friday, 28 November 2008.

ORDINARY BUSINESS

1. Receipt of the Company's Financial Report for the year ended 30 June 2008

To receive and consider of the Company's Financial Report, the Directors' Report and the Auditor's Report for the year ended 30 June 2008.

2. Remuneration Report

To put the following Resolution to a non-binding advisory vote:

"That the Remuneration Report in the Company's Annual Report be adopted."

3. Resignation and Election of Auditors

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That:

- (a) the resignation of DFK-Richard Hill as auditor of the Company having been received by the Company and the consent of ASIC to such resignation having been received, the Company accepts DFK-Richard Hill's resignation; and
- (b) Deloitte Touche Tohmatsu having consented to their appointment as auditor of the Company, be appointed as auditor of the Company."

4. Re-elect Mr Peter Simpson as a Director of the Company

To re-elect Mr Peter Simpson as a Director of the Company, who retires in accordance with the Constitution of the Company, and being eligible, offers himself for re-election.

5. Re-elect Mr Russell Langusch as a Director of the Company

To elect Mr Russell Langusch as a Director of the Company, who was appointed as a director since the last annual general meeting of the Company, and being eligible, offers himself for re-election.

6. Re-elect Mr Jim McKerlie as a Director of the Company

To elect Mr Jim McKerlie as a Director of the Company, who was appointed as a director since the last annual general meeting of the Company, and being eligible, offers himself for re-election.

7. Re-elect Mr Peter Wicks as a Director of the Company

To elect Mr Peter Wicks as a Director of the Company, who was appointed as a director since the last annual general meeting of the Company, and being eligible, offers himself for re-election.

SPECIAL BUSINESS

8. Adopt a new Constitution

To consider and, if thought fit, pass the following resolution as a special resolution of the Company:

"That for the purposes of section 136 of the Corporations Act 2001, and for all other purposes, with effect on and from the date this resolution is carried, the Company's current Articles of Association be rescinded and a new Constitution in the form of the Constitution marked with the letter "A" and tabled at this meeting and summarised in the Explanatory Statement annexed to and forming part of this Notice of Meeting be adopted."

9. Approve the Grant of Options to Mr David Williams (Managing Director)

To consider and, if thought fit, pass the following as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.11 and all other purposes, the Company be authorised to:

- (a) issue to Mr David Williams a total of twelve million (12,000,000) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting; and
- (b) Cancel the two million two hundred and fifty thousand (2,250,000) options to purchase fully paid ordinary shares in the capital of the Company currently held by Mr Williams."

Voting Restriction on Resolution 9

The Company will disregard any votes cast on Resolution 9 by Mr David Williams and any associate of Mr Williams.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

10. Approve the Grant of Options to Mr Peter Simpson (Non-Executive Chairman)

To consider and, if thought fit, pass the following as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.11 and all other purposes, the Company be authorised to issue to Mr Peter Simpson a total of eight million (8,000,000) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting."

Voting Restriction on Resolution 10

The Company will disregard any votes cast on Resolution 10 by Mr Peter Simpson and any associate of Mr Simpson.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

11. Approve the Grant of Options to Mr Russell Langusch (Non-Executive Director)

To consider and, if thought fit, pass the following as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.11 and all other purposes, the Company be authorised to issue to Mr Russell Langusch a total of six million (6,000,000) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

Voting Restriction on Resolution 11

The Company will disregard any votes cast on Resolution 11 by Mr Russell Langusch and any associate of Mr Langusch.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

12. Approve the Grant of Options to Mr Jim McKerlie (Non-Executive Director)

To consider and, if thought fit, pass the following as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.11 and all other purposes, the Company be authorised to:

- (a) issue to Mr Jim McKerlie a total of six million (6,000,000) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting; and
- (b) Cancel the two million two hundred and fifty thousand (2,250,000) options to purchase fully paid ordinary shares in the capital of the Company currently held by Mr McKerlie.”

Voting Restriction on Resolution 12

The Company will disregard any votes cast on Resolution 12 by Mr Jim McKerlie and any associate of Mr McKerlie.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

13. Approve the Grant of Options to Mr Peter Wicks (Non-Executive Director)

To consider and, if thought fit, pass the following as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.11 and all other purposes, the Company be authorised to issue to Mr Peter Wicks a total of six million (6,000,000) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

Voting Restriction on Resolution 13

The Company will disregard any votes cast on Resolution 13 by Mr Peter Wicks and any associate of Mr Wicks.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

14. Approve the Grant of Options to Mr Chris Carty (Chief Operating Officer)

To consider and, if thought fit, pass the following as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.11 and all other purposes, the Company be authorised to:

- (a) issue to Mr Chris Carty a total of ten million (10,000,000) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting; and
- (b) Cancel the nine million (9,000,000) options to purchase fully paid ordinary shares in the capital of the Company currently held by Mr Carty.”

Voting Restriction on Resolution 14

The Company will disregard any votes cast on Resolution 14 by Mr Chris Carty and any associate of Mr Carty.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated at Sydney, on the 30 October 2008

By order of the Board
Ian W. Bucknell
Company Secretary

2008 Annual Report:

The 2008 Annual Report is available on the Company's

Website: www.drillsearch.com.au
and <http://www.drillsearch.com.au/2008AnnualReport.html>

PROXIES

1. The Chairman (or another director acting as chairman for the purpose of resolutions 4 and 10) intends to vote all undirected proxies in favour of all resolutions.
 2. A shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy or not more than two proxies to attend and vote instead of the shareholder.
 3. Where two proxies are appointed:
 - (i) a separate proxy Form, should be used to appoint each proxy;
 - (ii) the Proxy Form may specify the proportion, or the number, of votes that the proxy may exercise, and if it does not do so the proxy may exercise half of the votes.
 4. A shareholder can appoint any other person to be their proxy. A proxy need not be a shareholder of the Company. The proxy appointed can be described in the Proxy Form by an office held eg "the Chair of the Meeting".
 5. In the case of shareholders who are individuals, the Proxy Form must be signed:
 - (i) if the shares are held by one individual, by that shareholder;
 - (ii) if the shares are held in joint names, by any one of them.
 6. In the case of shareholders who are companies, the Proxy Form must be signed:
 - (i) if it has a sole director who is also sole secretary, by that director (and stating the fact next to, or under the signature on the Proxy Form);
 - (ii) in the case of any other company by either two directors or a director and secretary.
- The use of the common seal of the company, in addition to those required signatures, is optional.
7. If the person signing the Proxy Form is doing so under a power of attorney, or is an officer of a company outside those referred to above but authorised to sign the Proxy Form, the power of attorney or other authorisation (or a certified copy of it), as well as the Proxy form, must be received by the Company by the time and at the place specified below.
 8. A Proxy Form accompanies this notice of meeting and contains additional information. To be valid, duly completed proxy forms and any proxy appointment authorities under which a proxy form is signed, such as a power of attorney, must be received by the Company no later than 48 hours before the time in Sydney of the commencement of the meeting and must be lodged with the Company either:
 - in person at the Registered Office at Level 8, 16 Spring Street, Sydney NSW 2000 Australia or at the Share registry at Computershare Investor Services Pty Ltd, Level 3, 60 Carrington Street Sydney NSW 2000 Australia; or
 - by mail to the Registered Office at Level 8, 16 Spring Street Sydney NSW 2000 Australia or to the Share Registry at Computer Share Investor Services Pty Ltd, GPO Box 242, Melbourne VIC 3001, Australia; or
 - by facsimile to 1800 783 447 or + 61 3 9473 2555 (Share Registry) or + 61 2 9241 4404 (Registered Office).
 9. For the purpose of the meeting, shares in the Company will be taken to be held by those persons who are registered holders at the close of business on Wednesday 26 November 2008. Accordingly, transactions registered after that time will be disregarded in determining entitlement to attend and vote at the meeting.
 10. The constitution of the Company provides that a quorum for a general meeting of the Company is three shareholders.
 11. Attached to and forming part of this notice of meeting is an Explanatory Memorandum which provides shareholders with background information and further details of the resolutions to be considered at the meeting. The information provided is intended to assist shareholders in understanding the reasons for and effect of the resolutions, if passed.

DRILLSEARCH ENERGY LIMITED

(ABN 73 006 474 844)

EXPLANATORY STATEMENT

Important Notice

This Explanatory Statement contains an explanation of, and information about, each of the resolutions to be considered at the Annual General Meeting. It is given to Drillsearch Energy Limited's Shareholders to help them determine how to vote on the matters set out in the accompanying Notice of Meeting.

Shareholders should read this Explanatory Statement in full, because individual Sections may not give a comprehensive review of the proposals contemplated in this Explanatory Statement. This Explanatory Statement forms part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

If you are in doubt about how you should vote, you should consult your financial or other professional adviser.

ORDINARY BUSINESS

1. Financial Report – Year ended 30 June 2008

The Corporations Act 2001 (Cth) ("Corporations Act") requires the financial report (which includes the financial statements and the directors' declaration), the directors' report and the auditor's report to be laid before the Annual General Meeting. There is no requirement either in the Corporations Act or in the Constitution of the Company for Shareholders to approve the financial report, the directors' report or the auditor's report. Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the financial report.

The auditor will be attending the Annual General Meeting.

Shareholders are entitled to submit a written question to the auditor prior to the Annual General Meeting provided that the question relates to:

- the content of the Auditor's Report; or
- the conduct of the audit in relation to the Annual Financial Report.

The auditor will answer written questions submitted prior to the Annual General Meeting. All written questions must be received by the Company no later than 21 November 2008. All questions must be sent to the Company and may not be sent direct to the auditor. The Company will then forward all questions to the auditor.

The auditor will also answer questions at the meeting from shareholders relevant to:

- the conduct of the audit;
- the preparation and content of the Auditor's Report;
- the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

2. Resolution 2 – Remuneration Report

The Directors' Report for the year ended 30 June 2008 contains a Remuneration Report which sets out the policy on remuneration of the directors of the Company and specified executives of the Company.

The Corporations Act requires that a resolution that the Remuneration Report be adopted be put to a vote. The Corporations Act expressly provides that the vote is advisory and does not bind the directors of the Company.

Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

The directors recommend that shareholders vote in favour of the resolution.

3. Resolution 3 – Appointment of Auditor

DFK-Richard Hill have been the Company's auditors since 2002. With the merger with Great Artesian Oil and Gas Limited ("Great Artesian") and the resultant change in the Company, the Board considered that it was also time to change the Company's auditors. DFK-Richard Hill have agreed to resign from their position as auditors of the Company at this meeting and that resignation has been consented to by ASIC as required by the Corporations Act.

Deloitte Touche Tomhatsu, who have been the auditors of Great Artesian, have consented to be appointed as the Company's auditors.

The directors unanimously recommend that shareholders vote in favour of the resolution.

4. Resolutions 4, 5, 6 and 7 – Re-election of Directors

Mr. Simpson was elected by shareholders at the 2006 Annual General Meeting. In accordance with the Company's Constitution, Mr Simpson is required to stand for re-election and does offer himself for re-election.

The Board appointed Messrs Wicks and Carling on 17 April 2008 pursuant to an agreement with Carling Capital Partners relating to the placement of the shortfall under the Company's February 2008 Rights issue. The Board appointed Messrs Carty, Hopkins, McKerlie and Williams on 12 August 2008 in accordance with the Merger Implementation Agreement for the merger of the Company with Great Artesian. The Board appointed Mr Langusch on 17 October 2008. Mr W Johnson resigned as a director on 12 August 2008 and Messrs M Carling, C Carty, D Dixon and P Hopkins resigned on 17 October 2008.

The Company's constitution and the ASX Listing Rules require a director (other than the Managing Director) who is newly appointed by the board to stand for re-election at the next annual general meeting after their appointment. Accordingly Messrs Langusch, McKerlie and Wicks offer themselves for re-election. Mr Williams, as the Company's duly appointed Managing Director, is not required to stand for re-election.

A brief description of the directors offering themselves for re-election is set out below:

Peter Simpson Ass. Dip. Bus, FAIM, FAICD
(Non Executive Chairman)

Mr Simpson became Non-Executive Chairman at the 2006 AGM. He then became Executive Chairman of Drillsearch from 19 October, 2007 until the successful conclusion and implementation of the merger with Great Artesian on 12 August 2008, and continues to Chair the new board moving forward.

Mr Simpson has substantial business experience. He is executive Chairman of Bridge Finance (Australia) Pty Limited, which has broad interests in horticulture, publishing and the IT sector, Chairman of Eudunda Farmers' Limited, a public unlisted property and supermarket group and is a director of ASX listed Bentley International Limited. He has substantial interests in two private investment companies and is also a director of Wirra Wirra Vineyards.

Russell Langusch BEng(Hons), MEngSc
(Non Executive Director)

Mr Langusch is an energy consultant with over 30 years combined experience in the oil & gas and finance industries. His career has involved working in several international locations in a multitude of roles including petroleum engineering, petrophysics, sales, marketing and management and as a senior reservoir engineer before joining the finance sector in 1987. As a consultant he has since undertaken research projects, project assessments, financial modelling, corporate advisory services and independent expert valuations for many domestic and international clients. During the period 2004-early 2008 he was Managing Director of Elixir Petroleum, an E&P company with assets in the UK, North Sea, Gulf of Mexico and West Africa. He is currently a non-executive director of Gas2Grid Limited.

Jim McKerlie BEc, Dip Fin Man, FCA, FAICD
(Non Executive Director)

Mr McKerlie is a Chartered Accountant and business consultant and has had a global career consulting to small and large companies on growth strategies as a managing partner for KPMG and Deloitte. He has extensive corporate experience as director and chairman of private and public companies. Mr McKerlie is Group Chief Executive of Bullseye, which he founded.

Peter Wicks FCA (Non Executive Director)

Mr Wicks is a Chartered Accountant and was with Hartogen Energy for 11 years, including 6 years as Finance Director. He brings an in-depth knowledge of the Drillsearch Cooper-Eromanga blocks and the various market participants in those and contiguous areas. He also has experience in Canada where he founded an oil and gas company that was ultimately listed on the Toronto Stock Exchange. He has served as Chairman of Republic Gold Ltd since 2005, overseeing that company's recapitalisation and the expansion of its mineral portfolio.

SPECIAL BUSINESS

5. Resolution 8 - Adopt a New Constitution

The Constitution of the Company is currently its Articles of Association which were drawn up under previous legislation that has since been repealed. There have been many changes in the law since that time and the Board considers the current Articles to be outdated and that they should be brought into line with current legislation. However, for such an updating to be undertaken it would be necessary for the Company to substantially amend its Constitution.

Rather than amending the Company's existing Constitution the Directors consider that it is appropriate to take this opportunity to adopt a new constitution which reflects current law and practice. A copy of the proposed new constitution may be viewed at the Company's website of www.drillsearch.com.au and a copy will also be available for inspection at the meeting. A summary is attached to his Explanatory Statement as Attachment "A".

The Board unanimously recommends that Shareholders vote in favour of the Resolution.

6. Resolutions 9 – Approval of issue of securities to the Managing Director.

This resolution seeks shareholder approval for the issue of options to the Managing Director of the Company, David Williams and at the same time the cancellation of the options already held by him.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the company, such as a director, without the company obtaining the approval by ordinary resolution of its shareholders. The Company is seeking approval of shareholders under ASX Listing Rule 10.11 to allow the Company to issue these options (12,000,000 options) to Mr Williams. If shareholders approve the issue of options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

ASX Listing Rule 6.23.2 provides that a company cannot cancel options for consideration without the company obtaining the approval by ordinary resolution of its shareholders. The effect of this resolution is to replace the existing options (details of which are set out below) with the new options referred to above and hence the Company is seeking approval of shareholders under ASX Listing Rule 6.23.2.

The options will be issued for no cost and no funds will be raised from the issue of the options unless and until they are exercised. The amount of funds raised from the exercise of all of the options the subject of Resolution 9 will amount to a total of \$600,000. If such options are exercised these funds will form part of the working capital of the Company.

As noted in the Scheme Booklet for the merger with Great Artesian, as a result of the Directors of Great Artesian entering into Option Cancellation Deeds as part of that merger, the following options were issued to Directors on 12 August 2008:

Director	No. of options granted	Exercise Price
Chris Carty*	9,000,000	\$0.0700
Peter Hopkins	2,250,000	\$0.0866
Jim McKerlie*	2,250,000	\$0.0866
David Williams*	2,250,000	\$0.0866

*these options are to be cancelled if approval for the issue of new options is given.

Subject to the approval of Resolution 9 the issue of twelve million (12,000,000) options, as referred to in this resolution, will be made as soon as practicable after the date of approval and in any event before one month from the date of approval.

As part of his appointment initially as a non-executive director of Great Artesian, Mr Williams was issued with 750,000 options in Great Artesian. After the merger of Great Artesian these were replaced with 2,250,000 options in the Company pursuant to an Option Cancellation Deed. The contract of employment entered into by Great Artesian with Mr Williams when he was appointed Managing Director of Great Artesian provided for him to be granted 2,250,000 options (equal to 6,750,000 options in the Company after the merger) to subscribe for fully paid shares in the capital of Great Artesian subject to obtaining all necessary shareholder approvals.

The Board has obtained advice in connection with the level and form of options to be granted to Mr Williams as Managing Director. As a result the Board has agreed in Mr Williams' contract of employment that the existing issued options should be replaced with the issue of 12,000,000 options in the Company on the terms detailed below.

As the granting of these options is an integral part of the remuneration of the Managing Director, it is a term of his contract of employment that the Company will pay him cash equivalent compensation if shareholder approval of the grant for the options is not obtained.

Option Terms

The principal terms of the options are as follows:

- The options are issued for no consideration.
- The exercise price payable on each option is 5 cents per share.
- The options may be exercised any time after issue.
- The term of the options shall be 4 years.
- In order to exercise any options the Managing Director must be in the employ of the Company or have been in the employ of the Company at least three months prior to the commencement of the relevant Exercise Period. The options will lapse if not exercised within 90 days of the Managing Director ceasing to be employed by the Company unless the Board otherwise determines.

- However, if the employment of the Managing Director is terminated by the Company prior to the commencement of an Exercise Period (other than for cause) or by the Managing Director giving notice of termination within three months after a Change of Control Event, the Exercise Period for the next tranche of options will immediately commence. Any remaining tranche of options will lapse upon such termination. For the purposes of this clause a Change of Control Event will also include a situation where Board members nominated by a person having less than 50% of the Shares (Controller) and associates of the Controller between them (taking into account the casting vote of the Chairman) are able to control the decision making of the Board regardless of how this situation comes about.

- If a takeover bid is made then, notwithstanding any other provision to the contrary, at any time during the takeover period, the Managing Director may exercise options for which an Exercise Period has commenced and options in the tranche the subject of the next Exercise Period.

- Exercise of the options is not subject to any performance criteria.

- Shares issued upon the exercise of the options rank equally in all respects with the existing shares of the Company;

- The Company will apply for shares issued upon the exercise of options to be quoted on the ASX;

- The options may be granted to an Eligible Person in respect of the Managing Director and may only be transferred to such an Eligible Person. Eligible Persons in respect of the Managing Director are:

(a) the spouse of the Managing Director;

(b) a body corporate in which the Managing Director holds and beneficially owns not less than 50% of the issued voting share capital;

(c) the trustee of a trust in which the Managing Director is a beneficiary or object; or

(d) the trustee of a superannuation fund of which the Managing Director is a member.

- In the event of any reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of the Company prior to the expiry of any options, the number of options to which the Managing Director is entitled or the exercise price of the options or both or any other terms will be reconstructed in a manner determined by the directors which complies with the provisions of the ASX Listing Rules. There are no participating rights or entitlements inherent in the options and the Managing Director will not be entitled to participate in new issued capital offered to shareholders during the currency of the options unless the options have been exercised by him.

- If the Company makes a bonus issue, the holder of options which have not expired at that time for determining entitlements to the bonus issue shall be entitled to have issued to them upon exercise of any of those options, the number of shares which would have been issued under the bonus issue to the person registered as holding the same if the options had been exercised prior to the entitlement date for participation in the bonus issue.

The full terms of these options will be provided to any shareholder on request and will be available for inspection at the AGM.

Subject to the approval of Resolution 9 the issue of twelve million (12,000,000) options, as referred to in this resolution, will be made as soon as practicable after the date of the meeting and in any event within one month after the meeting. The cancellation of Mr Williams' existing options will occur at the same time.

Corporate Governance Issues

The ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Box 9.2) recognise that most executive remuneration packages will involve a balance between fixed and incentive pay.

The granting of options as part of the remuneration package is designed to align the interests of the Managing Director with those of the Company and its shareholders and is also intended to provide an incentive to them to further enhance the growth and value of the Company.

The Board believes that the issue of these options to the Managing Director is an appropriate form of compensation as the Exercise Period of the options is tied to the period of service of the Managing Director and considers that an improvement in the share price of the Company is the simplest measure of the effectiveness of the Managing Director's performance.

Corporations Act

Section 208 of the Corporations Act prohibits a Company from giving a financial benefit to a related party without the prior approval of members.

A "related party" for the purposes of the Corporations Act includes a director of a public company. A "financial benefit" for the purposes of the Corporations Act is widely defined and includes a public company granting options to a related party. The granting of options to a related party as contemplated by Resolution 9 may constitute the giving of a financial benefit and accordingly the Company is seeking shareholder approval under section 208 of the Corporations Act to approve the grant of options contemplated by this resolution.

The nature of the financial benefit is apparent on the face of the terms of the options as outlined above. Further details of the financial benefit are set out below.

Other Information that is reasonably required by the shareholders to make a decision and that is known to the Company or any of its Directors

If all of the options to be issued under Resolution 9 are exercised (noting that the options currently held by Mr Williams would have been cancelled) and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares on issue would increase by 12,000,000 to 1,680,431,597 and the newly issued shares would comprise 0.7% of the issued shares at that time. The effect of this will be to dilute the shareholding of existing shareholders by approximately 0.7% on an undiluted basis, based on 1,680,431,597 shares being on issue.

The following table sets out the current entitlement of the Managing Director to ordinary fully paid shares in the Company and his entitlement if he exercised all of the Options referred to in Resolution 9 (noting that the options currently held by Mr Williams would have been cancelled) and no other shares are issued by the Company.

Executive Director	No. of Shares (current)	No. of Shares (post resolution and post exercise)	% of Issued Capital
David Williams	-	12,000,000	0.71

As noted in the 2008 Annual Report David Williams' annual cash remuneration package is \$300,000.

The exercise price of 5 cents represents a 78.57% premium to the closing price of shares in the Company on 15 October 2008.

It is a requirement of Australian Securities and Investments Commission (ASIC) that a dollar value be placed on the Options to be issued in these circumstances.

The Bi-Nomial option price calculation method has been used to value the Options.

In determining the value of the Options, the following inputs have been assumed:

- the date of issue is 28 November 2008;
- the life of the Options is 4 years from the date of issue;
- the closing Share price is 2.8 cents (based on the closing price of Shares on the ASX on 15 October 2008);
- the exercise price is 5 cents;
- the risk free rate is 5.67 %
- the expected volatility is 64.0%pa

Based on the above input data, the value of the Options to be issued is 1.413 cents each. Accordingly the total balance sheet impact attributable to the granting of these options is \$169,512.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of these options is acceptable. Furthermore, the Board considers it important to adequately compensate the Managing Director in order to ensure that the Company retains appropriately skilled and qualified management to contribute to the success of the Company.

In determining the number and terms of the options to be issued to the Managing Director, consideration was given to the relevant experience and role of the Managing Director, his overall remuneration terms, the then current market price of shares in the Company and the terms of the recent option packages granted to managing directors and executive directors of other companies within the sector in which the Company operates.

Directors Interests and Recommendations

David Williams has an interest in the outcome of Resolution 9 by reason of the benefit that he will receive if the resolution is passed and therefore declines to make a recommendation to shareholders in respect of Resolution 9. Your Directors (other than Mr Williams) recommend that members vote in favour of Resolution 9.

7. Resolution 10 – Approval of issue of securities to Non Executive Chairman

This resolution seeks shareholder approval for the issue of 8,000,000 options to the Non-Executive Chairman of the Company, namely Peter Simpson.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the company, such as a director, without the company obtaining the approval by ordinary resolution of its shareholders. The Company is seeking approval of shareholders under ASX Listing rule 10.11 to allow the Company to issue these options (8,000,000 options) to Mr Simpson. If shareholders approve the issue of options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

The options will be issued for no cost and no funds will be raised from the issue of the options unless and until they are exercised. The amount of funds raised from the exercise of all of the options the subject of Resolution 10 will amount to a total of \$400,000 if the exercise price is \$0.05 per share. If such options are exercised these funds will form part of the working capital of the Company.

The issue of options to Mr Simpson forms part of his remuneration and is designed to align his interests with those of the Company and its shareholders. It is also intended to provide an incentive for him to further enhance the growth and value of the Company.

Option Terms

The terms of these options are substantially those set out for the options to be issued to the Managing Director noted above in respect of Resolution 9.

The only material differences in the terms of issue from those applying to the Managing Director are as follows:

- Where Mr Simpson ceases to be a director of the Company, he may exercise any options for which an Exercise Period has commenced and for which an Exercise Period will commence within 6 months of the date on which he ceases to be a director. The options will lapse if not exercised within 90 days of Mr Simpson ceasing to be a director of the Company unless the Board otherwise determines.

- There is no change of control provision.

The full terms of these options will be provided to any shareholder on request and will be available for inspection at the AGM.

Subject to the approval of Resolution 10 the issue of eight million (8,000,000) options, as referred to in this resolution, will be made as soon as practicable after the date of the meeting and in any event within one month after the meeting.

Corporate Governance

The Board acknowledges that the issue of options to non-executive directors is a departure from the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Box 9.3). Nevertheless, the Board considers the issue of the options contemplated by this resolution to be an effective means to compensate Mr Simpson more adequately at no cash cost to the Company, allowing it to constrain the levels of salaries and fees that would otherwise be payable.

The Board believes that the issue of these options to the Non-Executive Chairman is an appropriate form of compensation as the Exercise Period of the options is tied to the period of service of the Non-Executive Chairman and considers that an improvement in the share price of the Company is the simplest measure of the effectiveness of the Non-Executive Chairman's performance.

Corporations Act

Section 208 of the Corporations Act prohibits a Company from giving a financial benefit to a related party without the prior approval of members.

A "related party" for the purposes of the Corporations Act includes a director of a public company. A "financial benefit" for the purposes of the Corporations Act is widely defined and includes a public company granting options to a related party. The granting of Options to a related party as contemplated by Resolution 10 may constitute the giving of a financial benefit and accordingly the Company is seeking shareholder approval under section 208 of the Corporations Act to approve the grant of options contemplated by each of these resolutions.

The nature of the financial benefit is apparent on the face of the terms of the options as outlined above. Further details of the financial benefit are set out below.

Other Information that is reasonably required by the shareholders to make a decision and that is known to the Company or any of its Directors

If all of the Options to be issued under Resolution 10 are exercised and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares issued would increase by 8,000,000 to 1,676,431,597 and the newly issued shares would comprise 0.4% of the issued shares at that time. The effect of this will be to dilute the shareholdings of existing shareholders by approximately 0.4% on an undiluted basis, based on 1,676,431,597 Shares being on issue.

The following table sets out the current entitlement of the Non-Executive Chairman to ordinary fully paid shares in the Company and their entitlement if they exercised all of the options referred to in Resolution 10, and no other shares are issued by the Company.

Director	No. of Shares (current)	No. of Shares (post resolution and post exercise)	% of Issued Capital
Peter Simpson	10,850,000	18,850,000	1.12

Details of other remuneration received by the Non-Executive Chairman during the financial year ended 30 June 2008 and disclosed in the 2008 Annual Report are as follows:

Director	Salary Directors Fee	Superannuation	Total
Peter Simpson	\$139,500	\$40,000	\$179,500

The exercise price of 5 cents represents a 78.57% premium to the closing price of shares in the Company on 15 October 2008.

It is a requirement of ASIC that a dollar value be placed on these options to be issued in these circumstances.

The Bi-Nomial option price calculation method has been used to value these options.

In determining the value of these options, the following inputs have been assumed:

- the date of issue is 28 November 2008;
- the life of the Options is 4 years;
- the underlying Share price is 2.8 cents (based on the closing price of Shares on 15 October, 2008 the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Statement with the ASIC);
- the exercise price is 5 cents;
- the risk free rate is 5.67%;
- the expected volatility is 64.0%pa

Based on the above input data, the value of these options is 1.413 cents each. Accordingly the total balance sheet impact attributable to the granting of these options is \$113,008.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of these options is acceptable. Furthermore, the Board considers it important to adequately compensate Directors in order to attract and retain members with appropriate qualifications and skills to be able to contribute to the success of the Company.

In determining the number and terms of the options to be issued to each Director, consideration was given to the relevant experience and role of each Director, each Director's overall remuneration terms, the current market price of shares in the Company and the terms of the recent option packages granted to directors of other companies within the sector in which the Company operates.

Directors Interests and Recommendations

Peter Simpson has an interest in the outcome of Resolution 10 by reason of the benefit that he will receive if the resolution is passed and therefore declines to make a recommendation to shareholders in respect of Resolution 10. Your Directors (other than Mr Simpson) recommend that members vote in favour of Resolution 10.

8. Resolutions 11, 12 and 13 – Approval of issue of securities to Non Executive Directors

These resolutions seek shareholder approval for the issue of 6,000,000 options to each of the Non-Executive Directors of the Company, namely Russell Langusch, Jim McKerlie and Peter Wicks and at the same time the cancellation of the options already held by Mr McKerlie.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the company, such as a director, without the company obtaining the approval by ordinary resolution of its shareholders. The Company is seeking approval of shareholders under ASX Listing rule 10.11 to allow the Company to issue these options (up to a maximum of 18,000,000 options in aggregate) to Messrs Langusch, McKerlie and Wicks. If shareholders approve the issue of options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

ASX Listing Rule 6.23.2 provides that a company cannot cancel options for consideration without the company obtaining the approval by ordinary resolution of its shareholders. The effect of this resolution is to replace the existing options held by Mr McKerlie (details of which are set out in relation to Resolution 9 above) with the new options referred to above and hence the Company is seeking approval of shareholders under ASX Listing Rule 6.23.2.

The options will be issued for no cost and no funds will be raised from the issue of the options unless and until they are exercised. The amount of funds raised from the exercise of all of the options the subject of Resolutions 11, 12 and 13 will amount to a total of \$900,000 if the exercise price is \$0.05 per share. If such options are exercised these funds will form part of the working capital of the Company.

The issue of options to Messrs Langusch, McKerlie and Wicks forms part of their remuneration and is designed to align the interests with those of the Company and its shareholders. It is also intended to provide an incentive for each of them to further enhance the growth and value of the Company.

Option Terms

The terms of these options are the same as for the options to be issued to the Non-Executive Chairman noted above in respect of Resolution 10.

The full terms of these options will be provided to any shareholder on request and will be available for inspection at the AGM.

Subject to the approval of Resolutions 11, 12 and 13 the issue of eighteen million (18,000,000) options, as referred to in these resolutions, will be made as soon as practicable

after the date of the meeting and in any event within one month after the meeting. The cancellation of Mr McKerlie's existing options will occur at the same time.

Corporate Governance

The Board acknowledges that the issue of options to non-executive directors is a departure from the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Box 9.3). Nevertheless, the Board considers the issue of the options contemplated by these resolutions to be an effective means to compensate non-executive directors more adequately at no cash cost to the Company, allowing it to constrain the levels of salaries and fees that would otherwise be payable.

The Board believes that the issue of these options to the Non-Executive Directors are an appropriate form of compensation as the Exercise Period of the options is tied to the period of service of the Non-Executive Directors and considers that an improvement in the share price of the Company is the simplest measure of the effectiveness of the Non-Executive Directors' performance.

Corporations Act

Section 208 of the Corporations Act prohibits a Company from giving a financial benefit to a related party without the prior approval of members.

A "related party" for the purposes of the Corporations Act includes a director of a public company. A "financial benefit" for the purposes of the Corporations Act is widely defined and includes a public company granting options to a related party. The granting of Options to a related party as contemplated by Resolutions 11, 12 and 13 may constitute the giving of a financial benefit and accordingly the Company is seeking shareholder approval under section 208 of the Corporations Act to approve the grant of options contemplated by each of these resolutions.

The nature of the financial benefit is apparent on the face of the terms of the options as outlined above. Further details of the financial benefit are set out below.

Other Information that is reasonably required by the shareholders to make a decision and that is known to the Company or any of its Directors

If all of the Options to be issued under Resolutions 11, 12 and 13 are exercised (noting that the options currently held by Mr McKerlie would have been cancelled) and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares issued would increase by 18,000,000 to 1,686,431,597 and the newly issued shares would comprise 1.0% of the issued shares at that time. The effect of this will be to dilute the shareholdings of existing shareholders by approximately 1.0% on an undiluted basis, based on 1,686,431,597 shares being on issue.

The following table sets out the current entitlement of the Non-Executive Directors to ordinary fully paid shares in the Company and their entitlement if they exercised all of the options referred to in Resolutions 11, 12 and 13, and no other shares are issued by the Company.

Director	No. of Shares (current)	No. of Shares (post resolution and post exercise)	% of Issued Capital (post resolution and post exercise)
Russell Langusch	0	6,000,000	0.35
Jim McKerlie	1,110,000	7,110,000	0.42
Peter Wicks	2,000,000	8,000,000	0.47

Details of other remuneration received by the above Non-Executive Directors during the financial year ended 30 June 2008 and disclosed in the 2008 Annual Report are as follows:

Director	Salary Directors Fee	Superannuation	Total
Russell Langusch	-	-	-
Jim McKerlie	-	-	-
Peter Wicks	\$6,164	-	\$6,164

The exercise price of 5 cents represents a 78.57% premium to the closing price of shares in the Company on 15 October 2008.

It is a requirement of ASIC that a dollar value be placed on these options to be issued in these circumstances.

The Bi-Nomial option price calculation method has been used to value these options.

In determining the value of these options, the following inputs have been assumed:

- the date of issue is 28 November 2008;
- the life of the Options is 4 years;
- the underlying Share price is 2.8 cents (based on the closing price of Shares on 15 October, 2008 the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Statement with the ASIC);
- the exercise price is 5 cents;
- the risk free rate is 5.67%;
- the expected volatility is 64.0%pa

Based on the above input data, the value of these options is 1.413 cents each. Accordingly the total balance sheet impact attributable to the granting of these options is \$254,268.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of these options is acceptable. Furthermore, the Board considers it important to adequately compensate Directors in order to attract and retain members with appropriate qualifications and skills to be able to contribute to the success of the Company.

In determining the number and terms of the options to be issued to each Director, consideration was given to the relevant experience and role of each Director, each Director's overall remuneration terms, the current market price of shares in the Company and the terms of the recent option packages granted to directors of other companies within the sector in which the Company operates.

Directors Interests and Recommendations

Each of the Directors named in resolutions 11, 12 and 13 respectively has an interest in the outcome of the resolution in which they are named by reason of the benefit that they will receive if each relevant resolution is passed, and therefore declines to make a recommendation to shareholders in relation to that resolution.

Your Directors (other than Mr Langusch) recommend that members vote in favour of Resolution 11.

Your Directors (other than Mr McKerlie) recommend that members vote in favour of Resolution 12.

Your Directors (other than Mr Wicks) recommend that members vote in favour of Resolution 13.

9. Resolutions 14 – Approval of issue of securities to the Chief Operating Officer.

This resolution seeks shareholder approval for the issue of options to the Chief Operating Officer of the Company, Chris Carty and at the same time the cancellation of the options already held by him.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the company, such as a director or a person who has been a director of the company at any time within the previous 6 months, without the company obtaining the approval by ordinary resolution of its shareholders. Mr Carty was until 17 October 2008 a director of the Company. The Company is seeking approval of shareholders under ASX Listing Rule 10.11 to allow the Company to issue these options (10,000,000 options) to Mr Carty. If shareholders approve the issue of options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

ASX Listing Rule 6.23.2 provides that a company cannot cancel options for consideration without the company obtaining the approval by ordinary resolution of its shareholders. The effect of this resolution is to replace the existing options (details of which are set out below) with the new options referred to above and hence the Company is seeking approval of shareholders under ASX Listing Rule 6.23.2.

The options will be issued for no cost and no funds will be raised from the issue of the options unless and until they are exercised. The amount of funds raised from the exercise of all of the options the subject of Resolution 14 will amount to a total of \$500,000. If such options are exercised these funds will form part of the working capital of the Company.

As part of his appointment initially as the technical director of Great Artesian, Mr Carty was issued with 3,000,000 options in Great Artesian. After the merger of Great Artesian these were replaced with 9,000,000 options in the Company pursuant to an Option Cancellation Deed.

The Board has obtained advice in connection with the level and form of options to be granted to Mr Carty as Chief Operating Officer. As a result the Board has agreed in Mr Carty's contract of employment that the existing issued options should be replaced with the issue of 10,000,000 options in the Company on the terms detailed below.

Option Terms

The terms of these options are the same as for the options to be issued to the Managing Director noted above in respect of Resolution 9.

The full terms of these options will be provided to any shareholder on request and will be available for inspection at the AGM.

Subject to the approval of Resolution 14 the issue of ten million (10,000,000) options, as referred to in this resolution, will be made as soon as practicable after the date of the meeting and in any event within one month after the meeting. The cancellation of Mr Carty's existing options will occur at the same time.

Corporate Governance Issues

The ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Box 9.2) recognise that most executive remuneration packages will involve a balance between fixed and incentive pay.

The granting of options as part of the remuneration package is designed to align the interests of the Chief Operating Officer with those of the Company and its shareholders and is also intended to provide an incentive to them to further enhance the growth and value of the Company.

The Board believes that the issue of these options to the Chief Operating Officer is an appropriate form of compensation as the Exercise Period of the options is tied to the period of service of the Chief Operating Officer and considers that an improvement in the share price of the Company is the simplest measure of the effectiveness of the Chief Operating Officer's performance.

Corporations Act

Section 208 of the Corporations Act prohibits a Company from giving a financial benefit to a related party without the prior approval of members.

A "related party" for the purposes of the Corporations Act includes a director of a public company or a person who has at any time in the previous 6 months been a director of a public company. A "financial benefit" for the purposes of the Corporations Act is widely defined and includes a public company granting options to a related party. The granting of options to a related party as contemplated by Resolution 14 may constitute the giving of a financial benefit and accordingly the Company is seeking shareholder approval under section 208 of the Corporations Act to approve the grant of options contemplated by this resolution.

The nature of the financial benefit is apparent on the face of the terms of the options as outlined above. Further details of the financial benefit are set out below.

Other Information that is reasonably required by the shareholders to make a decision and that is known to the Company or any of its Directors

If all of the options to be issued under Resolution 14 are exercised (noting that the options currently held by Mr Carty would have been cancelled) and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares on issue would increase by 10,000,000 to 1,678,431,597 and the newly issued shares would comprise 0.5% of the issued shares at that time. The effect of this

will be to dilute the shareholding of existing shareholders by approximately 0.5% on an undiluted basis, based on 1,678,431,597 shares being on issue.

The following table sets out the current entitlement of the Chief Operating Officer to ordinary fully paid shares in the Company and his entitlement if he exercised all of the Options referred to in Resolution 14 (noting that the options currently held by Mr Carty would have been cancelled) and no other shares are issued by the Company.

Director	No. of Shares (current)	No. of Shares (post resolution and post exercise)	% of Issued Capital (post resolution and post exercise)
Chris Carty	-	10,000,000	0.59

As noted in the 2008 Annual Report Chris Carty's annual cash remuneration package is \$260,000.

The exercise price of 5 cents represents a 78.57% premium to the closing price of shares in the Company on 15 October 2008.

It is a requirement of Australian Securities and Investments Commission (ASIC) that a dollar value be placed on the Options to be issued in these circumstances.

The Bi-Nomial option price calculation method has been used to value the Options.

In determining the value of the Options, the following inputs have been assumed:

- the date of issue is 28 November 2008;
- the life of the Options is 4 years from the date of issue;
- the closing Share price is 2.8 cents (based on the closing price of Shares on the ASX on 15 October 2008);
- the exercise price is 5 cents;
- the risk free rate is 5.67 %
- the expected volatility is 64.0%pa

Based on the above input data, the value of the Options to be issued is 1.413 cents each. Accordingly the total balance sheet impact attributable to the granting of these options is \$141,300.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of these options is acceptable. Furthermore, the Board considers it important to adequately compensate the Chief Operating Officer in order to ensure that the Company retains appropriately skilled and qualified management to contribute to the success of the Company.

In determining the number and terms of the options to be issued to the Chief Operating Officer, consideration was given to the relevant experience and role of the Chief Operating Officer, his overall remuneration terms, the then current market price of shares in the Company and the terms of the recent option packages granted to managing directors and executive directors of other companies within the sector in which the Company operates.

Directors Recommendation

Your Directors recommend that members vote in favour of Resolution 14.

ATTACHMENT A

SUMMARY OF PROPOSED NEW CONSTITUTION

The material provisions of Drillsearch Energy Limited's ("Company") proposed Constitution are summarised below. As it is a summary, it is not exhaustive and should be qualified by the full terms of the Constitution, which is available for inspection on the Company's website (www.drillsearch.com.au) and will be available for inspection at the meeting.

Shares of DLS

The Constitution provides that the Directors may issue shares or grant options over unissued shares in the Company.

The rights attaching to the Shares are:

- set out in the Constitution; and
- in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law.

Voting rights

Subject to the Constitution and any rights or restrictions attaching to any share class, at any general meeting, each Shareholder in person, by proxy, by attorney or by representative, is entitled to one vote on a show of hands, and one vote for each fully paid Share held by the Shareholder on a poll.

General meeting and notices

The Board shall call and arrange to hold a general meeting on request in writing received by Company from Shareholders with at least 5% of the votes that may be cast at the meeting or at least 100 Shareholders who are entitled to vote at the meeting. In the event that the Board fails to call the meeting within 21 days after the request is given to the Company, Shareholders with more than 50% of the votes of all the Shareholders requesting the meeting, may call the meeting.

The quorum for any general meeting is ten Shareholders (including proxies, attorneys, body corporate representatives and any other persons entitled to vote). If there is no quorum present within twenty minutes after the specified time for the meeting, then:

- if the meeting was convened on the request of the Shareholders under the Corporations Act, the meeting is dissolved; and
- in any other case, the meeting is adjourned to any day at the time and place as decided by the Directors.

Each Shareholder, Director, ASX and the auditor are entitled to receive notice of general meetings of the Company.

Dividends

Subject to any special rights or restrictions attaching to any Shares, the Directors may pay dividends as they decide but only out of profits of the Company. Interest is not payable on a dividend. Subject to any special rights or restrictions attached to a share, dividends must be paid proportionately on and in compliance with the share payment amount of that share.

Dividend reinvestment

The Directors may implement a dividend reinvestment plan on any terms under which the dividends of participants are applied in subscribing for securities of the Company or a related body corporate. The Directors may amend, suspend or end the plan.

Variation of class rights

Subject to the Corporations Act and the issue provisions of shares of that share class, the rights attaching to any share class may be varied or cancelled with the written consent of 75% of shareholders of that share class, or by a special resolution passed at a separate general meeting of the shareholders of that share class.

The issue of new shares ranking equally with a class of shares already on issue with preferred or other special rights does not vary or cancel any class rights.

Transfer of shares

Subject to the Constitution, shareholders may transfer any shares by a written document in any form permitted by law decided by the Directors, or any method of transferring shares recognised and permitted under the Corporations Act and ASX, as approved by the Directors or in the case of CHESS Approved Securities, in accordance with the Chess Rules.

The Directors may refuse to register any transfer of any shares in certain circumstances, for example where the refusal is permitted by the Corporations Act or the ASX Listing Rules.

Winding up

In the event of liquidation, the surplus assets of the Company, after the repayment of all paid-up capital, may be distributed among shareholders in proportion to the shares held by them.

Share Certificates

The Company will issue share certificates, a statement of holdings required by the CHESS Rules or any other document that confirms ownership of the securities as the Directors decide to any Shareholder upon request and without payment by that Shareholder, in compliance with the Corporations Act. The Company must comply with the Corporations Act and the ASX Listing Rules in issuing those certificates, statements of holdings or other documents.

Directors – appointment and removal

The minimum number of Directors is three and the maximum is ten. Shareholders may appoint or remove the number of Directors at any time by resolution passed in general meeting.

Alternatively, Directors may also appoint a Director to fill a casual vacancy or as an additional Director. These Directors cease to be a Director at the end of the next annual meeting but may be eligible for election.

Directors – voting

There must be three Directors entitled to vote present at any meeting of Directors, or as otherwise decided by the Directors. Issues arising at a meeting of Directors will be decided by majority vote. Subject to the ASX Listing Rules, the chairman of the meeting has a casting vote if the chairman has a personal deliberative vote.

Directors – remuneration

The Company may remunerate each Director as the Directors decide, but the total amount of remuneration of non-executive directors may not exceed the amount fixed by the Company approved in a general meeting for that purpose.

The Company must pay travelling and other expenses properly incurred by the Director in carrying out the business of the Company. Special remuneration may also be paid to any Director who performs extra or special services for the Company.

Indemnities

To the extent permitted by the Corporations Act, the Company must indemnify each person who is or has been an officer of the Company, against any liability incurred as an officer and must pay a premium for a contract insuring an officer

Intentionally Blank



Drillsearch Energy Limited

ABN 73 006 474 844