

APPENDIX 4D**For the Half Year Ended 31 December 2008**

Previous corresponding period: Half year ended 31 December 2007

RESULTS FOR ANNOUNCEMENT TO THE MARKET**Key Information**

			\$
Revenues from ordinary activities	Increased	8.26% to	9,735,304
Loss from ordinary activities after tax attributable to members	Decreased	66.99% to	(5,470,758)
Net Loss for the period attributable to members	Decreased	66.99% to	(5,470,758)

Dividends

It is not proposed to pay any dividends

Net Tangible Assets

	Current period	Previous Period
Net tangible asset backing per ordinary security (cents)	4.40	6.56
Basic earnings / (loss) per share (cents)	(0.41)	(1.68)

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

Name	Date of gain of control	Contribution to entity's loss for the period	Contribution to entities loss for the full 6 month period
Great Artesian Oil and Gas Limited	31 July 2008	\$2,090,762	\$2,140,104

Details of individual and total dividends or distributions and dividends or distribution payments

There were no distributions or dividends payable or paid during the period.

Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for the participation in any dividends or distribution reinvestment plan.

There were no dividend or distribution reinvestment plans in operation.

Material interest in entities which are not controlled entities

There are no material interests in entities which are not controlled entities.

This information should be read in conjunction with the Directors' Report and the Half Yearly Financial Statements for the period.



DRILLSEARCH ENERGY LIMITED

ACN: 006 474 844

Half-year financial report for the half-year ended 31 December 2008

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Directors' report

The directors of Drillsearch Energy Limited ("the Company" or "Drillsearch") submit herewith the consolidated financial statements of the Company and its subsidiaries ("the Group") for the half-year ended 31 December 2008. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors' details

The names of the directors of the Company during or since the end of the half-year are:

- Mr. P. Simpson (Chairman)
- Mr. D. Williams (Managing Director) (appointed 12 August 2008) *
- Mr. P. Wicks (Non-Executive Director) (appointed 17 April 2008)
- Mr. M. Carling (Non-Executive Director) (resigned 20 October 2008)
- Mr. D. Dixon (Non-Executive Director) (resigned 20 October 2008)
- Mr. W. Johnson (Non-Executive Director) (resigned 20 October 2008)
- Mr. J. McKelvie (Non-Executive Director) (appointed 12 August 2008)
- Mr. P. Hopkins (Non-Executive Director) (appointed 12 August 2008, resigned 20 October 2008)
- Mr. R. Langusch (Non-Executive Director) (appointed 20 October 2008)
- Mr. C. Carty (Technical Director) (appointed 12 August 2008, resigned 20 October 2008)

* Mr Williams tendered his resignation during the period and that resignation will take effect on 18 June 2009.

Principal activities

The principal activity of the Company during the six months to 31 December 2008 was oil and gas exploration, development and production. No significant change in the nature of this activity occurred during the financial half year.

Results

During the period, the economic entity made a net loss after tax of \$5,470,758 (2007: \$7,988,050). This included an impairment expense on the Tintaburra and Kiana blocks of \$3,542,298. The Naccowlah block and Canadian assets have material headroom between book value and the NPV of future cash flows.

The Company maintained a strong cash balance of \$10,980,312 with a net cash outflow during the period of only \$837,340.

Review of operations

Australia

Drillsearch participates in oil production through its interests in ATP299P Tintaburra Block (10%), ATP259P Naccowlah Block (2%) in the Cooper and Eromanga basins in Queensland and PPL212 Kiana Block (30%) in the Cooper and Eromanga basins in South Australia. Drillsearch is active in the development of existing oil fields in the Tintaburra and Naccowlah Blocks.

Drillsearch is also progressing with its interests in ten gas and condensate discoveries in PEL106 of the Cooper Basin, South Australia. Six of these discoveries have been flow tested with the remaining four cased and suspended awaiting flow-testing and eventual hook-up as potential producers. Drillsearch is involved in a FEED study for the development of a 60 million cubic feet of gas per day gas processing facility as an alternative means to commercialising its gas discoveries.

Drillsearch's exploration interests in the Cooper and Eromanga basins are at various stages of activity ranging from preferred tenderer status (8 permits) to acquiring seismic, prospect definition and drilling. Drillsearch is "free carried" in the current well being drilled in ATP 539P.

Other interests include exploration permits in the Gippsland Basin in offshore Victoria (VIC/P63, VIC/P64) and Tasmania (T/46P) and the Carnarvon Basin in offshore Western Australia (WA352P). Drillsearch also has an interest in 1 offshore permit in Papua New Guinea (PPL244) in the offshore Papuan Basin.

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

Canada

The Group's interests in Canada are held through its subsidiaries Circumpacific Energy Corporation (79.5%) and Drillsearch Energy (Canada) Inc (100%). Circumpacific Energy Corporation (TSX Code: CER.V) participates in oil and gas production from a large suite of production, development and exploration interests in the Western Canada Sedimentary Basin in Alberta and Saskatchewan.

For full details of the activities of the Group see the Circumpacific Energy Corporation website www.circumpacific.com.

Changes in state of affairs

Significant changes in the state of affairs of the company during the financial half year were as follows:

- On 12 August 2008 the scheme of arrangement for the merger of the Company and Great Artesian Oil and Gas Limited was implemented. Effective control of Great Artesian Oil and Gas Limited is deemed to have passed to Drillsearch Energy on 31st July 2008, the date of the second Court hearing.
- On 23 July 2008, Circumpacific Energy Corporation issued 24,000,000 shares to Drillsearch Energy Canada Limited as settlement for a CAD\$3,000,000 (\$3,071,882) debt owed to Drillsearch Energy Canada Limited.

Subsequent events

Subsequent to balance sheet date the following material events have occurred:

- On 12 January 2009, the Company announced to the ASX a notice of substantial holding in 3D Oil Limited (ASX: TDO).
- On 16 January 2009, the Company announced an off-market takeover offer to 3D Oil Limited shareholders offering four Drillsearch shares for every one 3D Oil Limited ordinary share.
- On 2 February 2009, Circumpacific Energy Corporation signed an agreement with the National Bank of Canada for a line of credit facility in the amount of CAD \$3,500,000 at a rate of Prime + 1.25%. Circumpacific Energy Corporation plans to use these funds to grow the company by acquisition of oil and gas properties.
- On 18 February 2009, the Company and Red Sky Energy Limited (ASX: ROG) announced an agreement relating to monies (\$1 million) previously deposited under a 2006 Farmin Agreement with Great Artesian Oil and Gas Limited which had expired. Red Sky Energy Limited will receive an interest (up to 25%) in any discovery resulting from the drilling of the Planet Downs-1 well in ATP539P.

Auditor's independence declaration

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

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors



Peter Simpson

Chairman

Sydney, 27 February 2009

Deloitte Touche Tohmatsu
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The Board of Directors
Drillsearch Energy Limited
Level 8, 16 Spring Street
Sydney
NSW 2000

27 February 2009

Dear Board Members

Drillsearch Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Drillsearch Energy Limited.

As lead audit partner for the review of the financial statements of Drillsearch Energy Limited for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU



John Leotta
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Independent Auditor's Review Report to the members of Drillsearch Energy Limited

We have reviewed the accompanying half-year financial report of Drillsearch Energy Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement, statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 15.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Drillsearch Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Drillsearch Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU



John Leotta
Partner
Chartered Accountants
Sydney, 27 February 2009

Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Peter Simpson', with a large, stylized initial 'P'.

Peter Simpson
Chairman
Sydney, 27 February 2009

Consolidated income statement for the half-year ended 31 December 2008

	Note	Consolidated Group	
		Half-year ended	
		31 Dec 2008	31 Dec 2007
		\$	\$
Continuing operations			
Revenue		9,735,304	8,992,608
Operating expenses		(4,975,048)	(3,222,811)
Employee benefits expense		(863,582)	(624,145)
Changes in inventories		876,244	845,512
Depletion and amortisation expense		(3,194,737)	(1,520,329)
Depreciation expense		(102,470)	(697,376)
Cost of sales		(8,259,593)	(5,219,149)
Gross profit		1,475,711	3,773,459
Share based payment expense		(865,185)	-
Exploration and evaluation costs expensed	10	(1,027,816)	(4,404,324)
Impairment of oil & gas assets	3	(3,542,298)	(859,355)
Finance costs		(429,226)	(1,910,093)
Other expenses		(1,488,031)	(1,385,175)
Loss before tax		(5,876,845)	(4,785,488)
Income tax benefit/(expense)	9	406,087	(3,202,562)
Loss for the period from continuing operations		(5,470,758)	(7,988,050)
Attributable to:			
Equity holders of the parent		(5,490,782)	(8,166,853)
Minority interest		20,024	178,803
Loss per share from continuing activities			
Basic and diluted loss per share (cents per share)		(0.41)	(1.68)

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

Consolidated balance sheet as at 31 December 2008

	Note	Consolidated Group	
		31 Dec 2008 \$	30 Jun 2008 \$
Current assets			
Cash and cash equivalents		10,980,312	11,914,442
Trade and other receivables		5,957,859	4,558,150
Other financial assets		-	7,001
Inventories		3,069,013	2,171,893
Total current assets		20,007,184	18,651,486
Non-current assets			
Other receivables		998,721	168,579
Exploration and evaluation assets	10	29,612,076	3,120,972
Property, plant and equipment	11	38,177,826	41,318,811
Deferred tax assets		526,455	324,086
Total non-current assets		69,315,078	44,932,448
Total assets		89,322,262	63,583,934
Current liabilities			
Trade and other payables		5,350,933	3,388,080
Current tax liabilities	6	4,519,729	3,726,510
Provisions		89,900	11,584
Total current liabilities		9,960,562	7,126,174
Non-current liabilities			
Deferred tax liabilities		154,413	207,642
Provisions		3,837,472	2,384,205
Total non-current liabilities		3,991,885	2,591,847
Total liabilities		13,952,447	9,718,021
Net assets		75,369,815	53,865,913
Equity			
Issued capital		93,776,357	67,802,582
Reserves		1,106,437	(294,076)
Retained earnings		(21,549,055)	(16,058,273)
Equity attributable to equity holders of the parent		73,333,739	51,450,233
Minority interest		2,036,076	2,415,680
Total equity		75,369,815	53,865,913

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

Consolidated statement of changes in equity for the half-year ended 31 December 2008

	Share capital \$	Other reserves \$	Retained earnings \$	Minority interest \$	Total \$
Balance at 1 Jul 2007	30,339,117	1,305,763	(1,994,577)	2,115,547	31,765,850
Shares issued during the period	16,284,507	-	-	-	16,284,507
Transaction costs	(140,144)	-	-	-	(140,144)
(Loss)/profit for the period	-	-	(8,166,853)	178,803	(7,988,050)
Net exchange differences recorded in equity	-	(1,150,718)	-	-	(1,150,718)
Increase/(decrease) in reserves	-	132,125	-	(171,430)	(39,305)
Balance at 31 Dec 2007	46,483,480	287,170	(10,161,430)	2,122,920	38,732,140
Balance at 1 Jan 2008	46,483,480	287,170	(10,161,430)	2,122,920	38,732,140
Shares issued during the period	22,322,721	-	-	-	22,322,721
Transaction costs of share issue	(1,003,619)	-	-	-	(1,003,619)
(Loss)/profit for the period	-	-	(5,896,843)	417,506	(5,479,337)
Net exchange differences recorded in equity	-	(581,246)	-	-	(581,246)
Decrease in reserves	-	-	-	(124,746)	(124,746)
Balance at 30 Jun 2008	67,802,582	(294,076)	(16,058,273)	2,415,680	53,865,913
Balance at 1 Jul 2008	67,802,582	(294,076)	(16,058,273)	2,415,680	53,865,913
Shares issued during the period	27,049,880	-	-	-	27,049,880
Transaction costs of share issue	(25,051)	-	-	-	(25,051)
(Loss)/profit for the period	-	-	(5,490,782)	20,024	(5,470,758)
Net exchange differences recorded in equity	-	906,547	-	94,338	1,000,885
Reduction in minority interest	-	493,966	-	(493,966)	-
Share based payment expense	-	1,296,560	-	-	1,296,560
Transfer of vested share based payments	1,296,560	(1,296,560)	-	-	-
Purchase of treasury shares	(2,347,614)	-	-	-	(2,347,614)
Balance at 31 Dec 2008	93,776,357	1,106,437	(21,549,055)	2,036,076	75,369,815

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

Consolidated cash flow statement for the half-year ended 31 December 2008

	Note	Consolidated Group	
		Half-year ended	
		31 Dec 2008	31 Dec 2007
		\$	\$
Cash flows from operating activities			
Receipts from customers		12,410,786	5,480,039
Payments to suppliers and employees		(8,109,701)	(5,543,845)
Interest received		351,342	147,946
Interest and other costs of finance paid		(312)	(5,973)
Net cash provided by operating activities		4,652,115	78,167
Cash flows from investing activities			
Proceeds from repayment of loans		-	(50,017)
Cash and cash equivalents acquired as part of a business combination	8	1,569,668	-
Payment for exploration and evaluation assets		(3,195,642)	(7,859,093)
Payment for property, plant and equipment - other assets		(24,396)	(124,630)
Payment for property, plant and equipment - oil and gas assets		(3,814,034)	(6,175,002)
Proceeds from sale of non-current investment		-	605,620
Net cash used in investing activities		(5,464,404)	(13,603,122)
Cash flows from financing activities			
Proceeds from issues of equity securities		-	16,284,507
Payment for share issue costs		(25,051)	(140,144)
Repayment of borrowings		-	(2,513,267)
Net cash used in financing activities		(25,051)	13,631,096
Net (decrease)/increase in cash and cash equivalents		(837,340)	106,141
Cash and cash equivalents at the beginning of the period		11,914,442	2,706,148
Effects of exchange rate changes on the balance of cash held in foreign currencies		(96,790)	(372,357)
Cash and cash equivalents at the end of the period		10,980,312	2,439,932

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

Notes to the consolidated financial statements

1. Significant accounting policies

Statement of compliance

The half-year consolidated financial statements is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial statements are rounded off to the nearest dollar, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those adopted and disclosed in the Company's 2008 annual financial report for the financial year ended 30 June 2008. The only new standard adopted by the Company during the period is AASB 3 - Business Combinations (Revised).

2. Segment information

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise profit on sale of joint venture interests and related costs, interest income and borrowing costs, interest-earning assets and loans, and corporate assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Geographical segments

The Drillsearch Group operates primarily in Australia & PNG and Canada. Production from the designated segments is sold on commodity markets in the segments.

Primary reporting – geographical segments

	Australia & PNG		Canada		Consolidated	
	Half-year ended		Half-year ended		Half-year ended	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	\$	\$	\$	\$	\$	\$
Results						
Segment gross profit	1,097,529	2,917,182	378,182	856,277	1,475,711	3,773,459
Share based payment expense	(865,185)	-	-	-	(865,185)	-
Exploration and evaluation costs expensed	(1,027,816)	(4,404,324)	-	-	(1,027,816)	(4,404,324)
Impairment of oil and gas assets	(3,542,298)	(859,355)	-	-	(3,542,298)	(859,355)
Finance costs	(203,539)	(50,184)	(225,687)	(1,859,909)	(429,226)	(1,910,093)
Other expenses	(855,172)	(1,080,001)	(632,859)	(305,174)	(1,488,031)	(1,385,175)
Segment loss from continuing operations before income tax	(5,396,481)	(3,476,682)	(480,364)	(1,308,806)	(5,876,845)	(4,785,488)
Income tax benefit/(expense)					406,087	(3,202,562)
Loss from continuing operations					(5,470,758)	(7,988,050)
Non-cash expenses						
Depletion and amortisation – oil and gas assets	(2,020,747)	(665,774)	(1,173,990)	(854,555)	(3,194,737)	(1,520,329)
Depreciation – corporate assets	(93,394)	(623,734)	(9,076)	(74,002)	(102,470)	(697,736)
Unwinding of discount on site restoration	(29,564)	-	(170,974)	(230,092)	(200,538)	(230,092)
Employee share based remuneration	(865,185)	-	-	-	(865,185)	-
Segment non-cash expenses	(3,008,889)	(1,289,508)	(1,354,040)	(1,158,649)	(4,362,930)	(2,448,157)
	31 Dec 2008	30 Jun 2008	31 Dec 2008	30 Jun 2008	31 Dec 2008	30 Jun 2008
	\$	\$	\$	\$	\$	\$
Assets						
Segment assets	77,842,928	53,333,337	11,246,786	10,155,985	89,089,714	63,489,322
Unallocated corporate assets					232,548	94,612
Total assets	77,842,928	53,333,337	11,246,786	10,155,985	89,322,262	63,583,934
Liabilities						
Segment liabilities	(5,500,031)	(2,275,400)	(8,452,416)	(7,442,621)	(13,952,447)	(9,718,021)
Total liabilities	(5,500,031)	(2,275,400)	(8,452,416)	(7,442,621)	(13,952,447)	(9,718,021)
Acquisition of non-current assets						
Exploration, evaluation, development and producing assets	27,805,719	10,381,565	2,280,892	2,221,343	30,086,611	12,602,908
Unallocated corporate acquisitions					235,664	18,719
Total acquisition of non-current assets	27,805,719	10,381,565	2,280,892	2,221,343	30,322,275	12,621,627

3. Impairment of oil and gas assets

During the half-year reporting period, Drillsearch Energy Limited reviewed all of its oil and gas assets for impairment. Primarily as a result of a reduction in the long-term forward oil price, the Tintaburra block (ATP 299P) and Kiana-1 well (PPL 212) were impaired. The Naccowlah block (ATP259P) and Canadian assets have material headroom between the book value and the NPV of future cash flows.

4. Issuances, repurchases and repayments of equity securities

During the half-year reporting period, Drillsearch Energy Limited issued: 551,695,509 ordinary shares for \$27,033,080 for the acquisition of Great Artesian Oil and Gas Limited; and 600,000 ordinary shares for \$16,800 for services received.

There were no other movements in the ordinary share capital or other issued share capital of the company in the current or prior half-year reporting period.

Drillsearch Energy Limited issued 74,750,000 share options over ordinary shares and cancelled 16,500,000 share options during the half-year reporting period leaving a balance of 58,250,000 share options on issue. These share options had a fair value at grant date of \$865,186.

5. Contingencies and commitments

Contingencies

The directors are not aware of any contingent liabilities existing at 31 December 2008.

Commitments

Material expenditure commitments on existing oil and gas properties are:

Naccowlah and Tintaburra, South/West Queensland

The parent entity has committed to expend approximately \$4.45 million over a 12 month period from January, 2009, mainly on development drilling and infrastructure in ATP259P and ATP299P, in southwest Queensland. Some of this expenditure is additional to obligations under permit work programs or Joint Operating Agreements and as such the expenditure is at the discretion of the directors. The final commitment may vary depending on drilling results.

6. Tax liabilities

In the previous financial year, Drillsearch Energy Canada Incorporated, a wholly owned subsidiary of Drillsearch, received a re-assessment for the 2000 taxation year. The liability including penalties and interest now stands at CAD \$3,856,379. The Company has referred this matter to legal counsel and has formally objected to the re-assessment and is in settlement negotiations with the Canadian tax authorities.

7. Subsequent events

- On 12 January 2009, the Company announced to the ASX a notice of substantial holding in 3D Oil Limited (ASX: TDO).
- On 16 January 2009, the Company announced an off-market takeover offer to 3D Oil Limited shareholders offering four Drillsearch shares for every one 3D Oil Limited ordinary share.
- On 2 February 2009, Circumpacific Energy Corporation signed an agreement with the National Bank of Canada for a line of credit facility in the amount of CAD \$3,500,000 at a rate of Prime + 1.25%. Circumpacific Energy Corporation plans to use these funds to grow the company by acquisition of oil and gas properties.
- On 18 February 2009, the Company and Red Sky Energy Limited (ASX: ROG) announced an agreement relating to monies (\$1 million) previously deposited under a 2006 Farmin Agreement with Great Artesian Oil and Gas Limited which had expired. Red Sky Energy Limited will receive an interest (up to 25%) in any discovery resulting from the drilling of the Planet Downs-1 well in ATP539P.

8. Acquisition of subsidiaries

Acquisition of subsidiary

On 12 August 2008, the Group acquired 100% of the issued share capital of Great Artesian Oil and Gas Limited for share consideration of \$27.5 million. Great Artesian Oil and Gas Limited principal activity is Oil and Gas exploration in Australia. This transaction has been accounted for using the acquisition method of accounting.

The net assets acquired in the business combination, and the goodwill arising, are as follows:

	Acquiree's carrying amount before business combination \$	Fair value adjustments \$	Fair value \$
Net assets acquired:			
Cash and cash equivalents	1,569,668	-	1,569,668
Trade and other receivables	2,316,668	-	2,316,668
Treasury shares in Drillsearch	2,347,614	-	2,347,614
Exploration and evaluation assets	11,272,216	12,149,474	23,421,690
Property, plant and equipment	1,480,663	(259,395)	1,221,268
Trade and other payables	(3,412,454)	-	(3,412,454)
	15,574,375	11,890,079	27,464,454
Goodwill arising on acquisition			-
Total			27,464,454
Total consideration satisfied by:			
Shares issued in Drillsearch			27,033,080
Share options to be issued			431,374
			27,464,454

The initial accounting for the acquisition of Great Artesian Oil and Gas Limited has only been provisionally determined at reporting date. Great Artesian Oil and Gas Limited became wholly-owned on acquisition. For tax purposes, the tax values of Great Artesian Oil and Gas Limited assets are required to be reset based on market values and other factors. At the date of finalisation of this report, the necessary market valuations and other calculations had not been finalised and the adjustment to deferred tax liabilities and goodwill noted above has therefore only been provisionally determined based on the directors' best estimate of the likely tax values. The market valuations obtained for tax purposes may also impact the recognised fair values of the other assets acquired as part of the business combination.

Included in the net loss for the period since acquisition is \$2,090,762 attributable to the additional business generated by Great Artesian Oil and Gas Limited.

Had the business combination been effected at 1 July 2008, the revenue of the Group would be \$9,747,797, and net loss \$5,897,780. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

In determining the 'pro-forma' revenue and profit of the Group, had Great Artesian Oil and Gas Limited been acquired at the beginning of the current reporting period, the directors have:

- calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

9. Income tax

(a) The following amounts have been charged against revenue (AUD equivalent):

	31 Dec 2008	31 Dec 2007
	\$	\$
Revised income tax assessment in respect of Drillsearch Energy Canada Limited for the year ended 30 June 2000	-	1,663,329
Deferred income tax	(406,087)	3,361
Current income tax	-	1,535,872
Total income tax	(406,087)	3,202,562

10. Exploration and evaluation assets**Exploration and evaluation assets**

	Half year ended 31 Dec 2008	Year ended 30 June 2008
	\$	\$
Balance brought forward	3,120,972	4,841,990
Acquisition of subsidiary	23,421,690	-
Expenditure incurred during the period	3,025,871	7,002,809
Reclass from oil and gas assets	1,024,510	-
Expenditure expensed during the period	(1,027,816)	(8,681,201)
Foreign currency translation	46,849	(42,626)
Cost carried forward	29,612,076	3,120,972

11. Property, plant and equipment**Oil and gas assets**

	Half year ended 31 Dec 2008	Year ended 30 June 2008
	\$	\$
Balance brought forward	41,224,199	45,330,909
Acquisition of subsidiary	1,010,000	-
Expenditure incurred during the period	2,629,050	5,600,099
Borrowing costs capitalised	-	1,306,406
Depletion and amortisation expense	(3,194,737)	(3,669,198)
Impairment charges	(3,542,298)	(6,530,751)
Reclass to exploration and evaluation	(1,024,510)	-
Disposals during period	-	(10,657)
Foreign currency translation	843,574	(802,609)
Balance carried forward	37,945,278	41,224,199

Other assets

	Half year ended 31 Dec 2008	Year ended 30 June 2008
	\$	\$
Balance brought forward	94,612	412,633
Acquisition of subsidiary	211,268	-
Expenditure incurred during the period	24,396	18,719
Depreciation expense	(102,470)	(106,375)
Disposals during period	-	(230,365)
Foreign currency translation	4,742	-
Balance carried forward	232,548	94,612

Total property, plant and equipment

	Half year ended 31 Dec 2008	Year ended 30 June 2008
	\$	\$
Total property, plant and equipment	38,177,826	41,318,811